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THE PRESIDENT'S TRIP TO MEXICO
June 29 - July 1, 1962

BRIEFING BOOK

THE PRESIDENT

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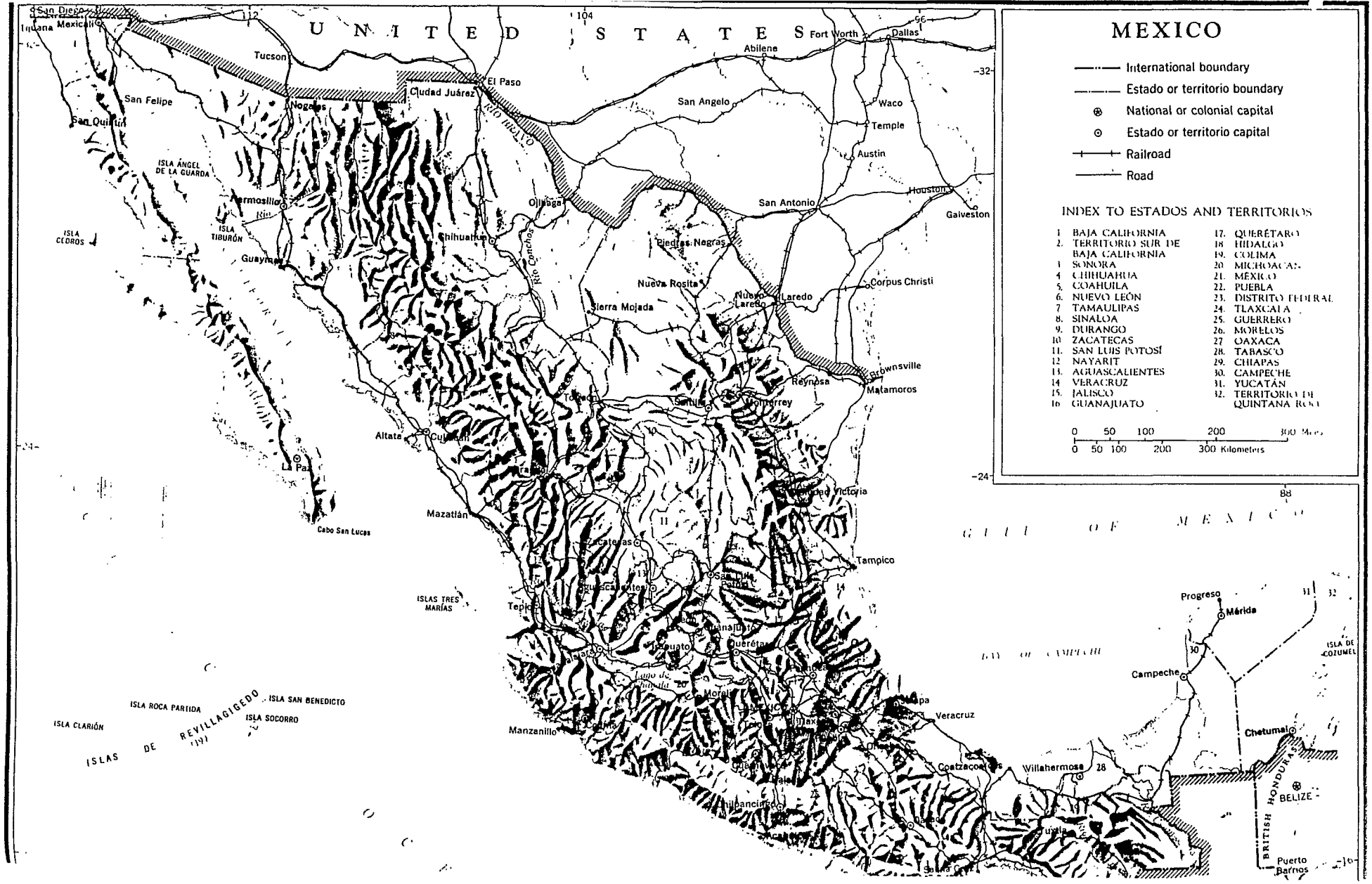
MEXICO
International boundary
Estado or territorio boundary
National or colonial capital
Estado or territorio capital
Railroad
Road
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1. BAJA CALIFORNIA
2. TERRITORIO SUR DE BAJA CALIFORNIA
3. SONORA
4. CHIHUAHUA
5. COAHUILA
6. NUEVO LEÓN
7. TAMAULIPAS
8. SINALOA
9. DURANGO
10. ZACATECAS
11. SAN LUIS POTOSÍ
12. NAYARIT
13. AGUASCALIENTES
14. VERACRUZ
15. JALISCO
16. GUANAJUATO
17. QUERÉTARO
18. HIDALGO
19. COLIMA
20. MICHOACÁN
21. MÉXICO
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24. TLAXCALA
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32. TERRITORIO DE QUINTANA ROO
0 50 100 200 300 Miles
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UNITED STATES
GULF OF MEXICO
BAY OF CAMPECHE
BRITISH HONDURAS
BELIZE
Tucson
El Paso
Ciudad Juárez
Nogales
San Felipe
San Quintín
Hermosillo
Guaymas
Chihuahua
Ojinaga
Piedras Negras
Nueva Rosita
Sierra Mojada
Nuevo Laredo
Laredo
Corpus Christi
Brownsville
Matamoros
Reynosa
Monterrey
Torreón
Saltillo
Altata
Culiacán
La Paz
Cabo San Lucas
Mazatlán
Tampico
Ciudad Victoria
Zacatecas
San Luis Potosí
Aguascalientes
Tepic
Guanajuato
Querétaro
Morelia
Manzanillo
Veracruz
Coatzacoalcos
Villahermosa
Campeche
Mérida
Progreso
Chetumal
Puerto Barrios
Abilene
Fort Worth
Dallas
San Angelo
Waco
Temple
Austin
San Antonio
Houston
Galveston
ISLA ÁNGEL DE LA GUARDA
ISLA TIBURÓN
ISLA CEDROS
ISLAS TRES MARÍAS
ISLA ROCA PARTIDA
ISLA SAN BENEDICTO
ISLA SOCORRO
ISLA CLARIÓN
ISLAS DE REVILLAGIGEDO
ISLA DE COZUMEL
Río Bravo
Río Conchos
Río Balsas

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THE PRESIDENT'S VISIT TO MEXICO
June 29-July 1, 1962

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CONFIDENTIAL
PTM G-0/2
June 22, 1962

PRESIDENT'S TRIP TO MEXICO
June 29-July 1, 1962

Scope Paper

The primary problems that the United States faces in Mexico are: (1) philosophy on the Government's role in economic development which discourages private foreign and domestic investment, and (2) an approach to international relations and Sino-Soviet bloc (including Cuba) subversive activities which is not always consistent with the fundamental security interests of the United States.

I. Mexican-American Relations

Relations between the United States and Mexico are basically friendly. Mexico is traditionally wary of the influence of the United States on its political and economic life but is also pragmatic in its approach to its relations with the United States and recognizes that its future is tied closely to ours. Although Mexico vigorously insists on meticulous respect for its sovereignty and its position as an equal, it emphasizes its economically weaker position in seeking concessions and assistance from the United States or applying restrictions on United States trade or investment. Nevertheless it should be recognized that Mexico generally demonstrates a much more responsible attitude in almost all particulars than most other Latin American countries.

II. Political Situation

The Partido Revolucionario Institucional (PRI), which has dominated the country's political life for thirty years, is increasingly showing signs of strain from trying to compromise widely divergent ideologies within its membership

and from holding the reins of office so long. The PRI by our political standards is generally left-of-center, and would probably move further to the left but for the concern of Mexican leaders over the reaction of the United States and the adverse effect it would have on Mexico's ability to obtain foreign private and public capital to promote its economic and social progress. The impact of the Cuban revolution tended to polarize the political factions within the PRI and has stirred general public debate on political issues and principles. There has been an undercurrent of political strife punctuated by occasional outbursts of violence usually fomented by the Communists or Castro followers. Discontent among the campesinos because of generally depressed economic conditions in the rural sector, which were aggravated by a decline in the rate of economic growth in 1961, has been a point of special concern to the Government. The population pressures in Mexico and the economic decline have also had the side effect of swelling the flood of Mexicans seeking entry into the United States, thereby adding to our own unemployment problems.

Former President Lazaro Cardenas is the apparent leader of the National Liberation Movement (MLN) which is a front for the Communist Party. The MLN seeks to bring within its organization all of those on the far left, including the left-wing of PRI and has as a major objective exerting sufficient political influence on the President and PRI to secure the nomination of a President favorable to it in 1964. The Frente Cívico, under the acknowledged leadership of former Presidents Miguel Alemán and Abelardo Rodríguez, seeks to organize the moderate elements of the PRI as a counterpoise to the ambitions of the Communists and extreme leftists.

The Catholic Church, a political force in Mexico before

the Revolution, has sought to rally the Mexican people against Castro-Communism in a campaign under the banner of "Cristianismo, si-Comunismo, no", while at the same time protesting that its activities are strictly non-political. López Mateos is said to have had these demonstrations in mind when he said on June 7, 1961, that he would not tolerate political agitation either the right or left. He may even consider the Catholic Church a greater threat to his political position and the dominance his party wields in Mexico than the Communists and like-minded parties in Mexico.

President López Mateos personifies the present equivocation in Mexican political life, and many observers consider him weak and ineffective. However, it seems more likely that he has designed his tactics to ensure his personal control of Mexican political life to the maximum extent possible and that he is closely directing the present course of Mexican political and economic policies. López Mateos has been schooled in the Mexican Revolution, which is anti-clerical in religion, paternalistic on social problems, and centralist in politics, with a strong disposition towards government control and operation of the economy. The Marxian approach to economic philosophy, in which Government ownership, control or direction of the means of production is considered necessary and foreign investment is viewed as imperialistic domination of the economy has found rather wide acceptance. However, the Mexican economy is still based primarily on private initiative and most Mexican leaders can be regarded as non-Communist in outlook.

III. Economic Situation

The Mexican economy experienced spectacular economic growth over the last two decades but the annual economic growth rate levelled off in 1956 to around 5%, and dropped to 3.5% in 1961. Gross national product is about $12 billion. Per capita income in Mexico is about $300, but the average in Mexico City, Monterrey and the cities bordering on the United States is $600 or more. Manufacturing has gradually increased as a component of GNP and in 1961 accounted for 25.7% of the total. The contribution of agriculture to GNP has dropped to 20.3%, but 53% of the population is engaged in agriculture. Commerce accounts for 20.8% of GNP and other activities 33.2%.

With a population growth rate of over 3%, per capita growth rate in Mexico in 1961 was near 0. The levelling off of the growth rate over the last several years to an average of 5%, and the sudden drop in 1961, can be traced to a decline in private investment, which for the first time in twenty years fell in absolute terms in 1961. Public sector investment has been increasing in both relative and absolute terms and accounted for 47% of all investment in 1961.

Private investors have been disturbed primarily by what they consider encroachment by the Government in fields heretofore reserved exclusively to private investors and by the Government's attitude towards Cuba and Communism. They have complained that this encroachment on the private sector is financed by taxes paid by the private sector, and by deficit financing which accounted for about 7% of government expenditures in 1961. In order to hold down the inflationary effects of its deficit financing the Government has restricted credit to the private sector. Finally, recent constitutional changes requiring profit sharing and severely restricting the

right to discharge workers, both changes being made without any consultation with business, have led to widespread criticism and mistrust of the López Mateos administration in business circles.

The amount of private foreign investment in Mexico dropped off in 1961 to less than $75 million, as opposed to an average of about $100 million. In addition to the policies of the Government which have concerned Mexican investors, foreign investors have been reluctant to invest in Mexico because of a policy of "Mexicanization" aimed at having majority ownership of all private enterprises in Mexico in the hands of Mexicans. This is a policy urged by Mexican businessmen, but also encouraged by those who are opposed to foreign investment on ideological grounds.

Imprudent statements in the summer of 1960 by Mexican political leaders in support of Fidel Castro, and investors' concern as discussed above, sparked a flight of capital out of Mexico which did not slacken until September 1961. There was another large outflow in December 1961 following Mexico's vote in the OAS favorable to Cuba. Mexico lost at least $150 million in capital flight in 1961. Mexico's foreign exchange position has suffered seriously because of capital flight. In April 1962 real net foreign exchange holdings were almost $100 million less than in April 1961.

In June 1961 the Mexican President assured the public that he would curb political agitation in Mexico over the Cuban issue. In September 1961 he promised that the Mexican economy would continue to be developed primarily by private enterprise. In January 1962 at Punta del Este, Mexico took a public stand against the Castro regime, holding

it to be "incompatible with the inter-American system"; but Mexico refused to accept a stronger resolution condemning Cuba and excluding Cuba from the OAS. In April 1962 the Government actively sought the cooperation of private investors in the development of some 500 new industries in Mexico. This move was part of a Plan of Immediate Action to cover the remaining three years of the López Mateos administration. It calls for increasing internal gross investment from 15.5% of GNP in 1960 to 18.4% by 1965. It proposes an increase of $200 million annually in foreign public credits over the present annual level of $300 million. It also envisages a doubling of private foreign investment to $200 million. These public statements and actions have helped restore confidence, but they have not been sufficient thus far to generate a resurgence of economic activity.

IV. Foreign Policy

Internationally Mexico has traditionally sought to avoid appearing a follower of the United States. It has forcefully asserted its national identity and advanced its own national policies, sometimes to the detriment of the United States, as in the case of UN consideration of Cuba in 1961. It is one of only five Latin American countries that still have diplomatic relations with Cuba. Prior to the Cuban Revolution it was almost alone in espousing an independent foreign policy within the hemispheric family, but it now apparently feels it has found a kindred spirit in Brazil, and possibly also Chile, Ecuador and Bolivia. Mexico is seeking to develop a new relationship with Brazil in which both assert an independent policy and non-alignment with politico-military blocs. Mexico insists, however, that it is not neutral in its basic commitment to the Western Christian civilization and its fundamental ideals and to the inter-American system.

A common tactic of Mexican representatives, at which they have been relatively successful in both the United Nations and the Organization of American States, is to seek compromise at the lowest common denominator on which they feel Mexico can agree. This very often results in resolutions much weaker than the U. S. desires. Mexico is only occasionally in open opposition to the United States. At the 16th session of the General Assembly the only significant issue on which Mexico voted in opposition to the United States was that of banning nuclear experiments and establishing nuclear-free areas. In the Law of the Sea Conference, Mexico took the leadership in opposing the efforts of the United States to obtain a resolution establishing the territorial sea at three or six miles. Mexico seeks a nine-mile territorial sea. At the Foreign Ministers' meeting on Cuba, Mexico opposed our efforts to obtain a resolution condemning Cuba.

V. United States Objectives

Our immediate objective should be to encourage such modification in policies of the López Mateos Administration as will promote more rapid economic and social progress. After considerable urging by us, the López Mateos Administration has developed a three-year Plan of Action to spur the growth of the economy. This Plan has clearly identified the requirement for substantial additional domestic and foreign private capital if Mexico is to achieve an average annual economic growth rate of 5% over the next three years. The Mexican Government has taken limited steps to adjust its policies with the objective of obtaining such investments and it should be assured of our cooperation, to the extent feasible, in achieving that objective. The philosophy which President Kennedy expressed in his speech to the

United States Chamber of Commerce is the line we should seek to have the Mexicans follow.

Although there are some cases where Alliance for Progress funds would be helpful, promises of large-scale assistance at this time unless made conditional upon greater self-help and necessary reforms would only serve to relieve the pressure on the administration to pursue vigorously its efforts to mobilize capital from private sources.

Our secondary effort should be to encourage Mexican support of our foreign policy objectives on the United Nations, Berlin, Cuba, disarmament and other issues, and to dissuade Mexico from efforts to pursue an increasingly "independent" position, which may take on some of the characteristics of non-alignment.

Third, the President may wish to consider taking up with the Mexican President specific bilateral issues which are of particular timeliness. These include: (a) our efforts to get Mexico to agree to consider promptly and dispose of numerous outstanding claims, (b) the desire of NASA to expand its tracking operation in Mexico for phases of development beyond the Mercury project, (c) our interest in improving Mexico's air traffic control system in northern Mexico as an aid to our Air Defense System, and (d) our desire to have expanded cooperation with Mexico in the control of narcotics traffic from Mexico.

VI. Mexican Objectives

Mexico will be seeking: (a) assurances of large-scale financial assistance to promote its economic growth, (b) what it calls "just prices" for its primary products such as lead and zinc, coffee, cotton, etc., and (c) removal of

restrictions on Mexican exports to the United States. Mexico will seek such concessions while avoiding any significant commitment on its part to pursue vigorously domestic policies which would support any program in which we might agree to cooperate.

Closely linked to these fundamental objectives will be the Mexican effort -- through adroit publicity, any joint statement by the two Presidents, and otherwise -- to utilize the visit to prove to the Mexican people that the United States approves of all of the Mexican President's domestic and foreign policies. The Mexicans realize that it will be almost impossible for the United States to avoid conveying that impression without destroying the value of the visit itself.

President López Mateos will also be seeking commitments that will help him politically during the remainder of his term and focus public opinion on something else than the stagnant economic situation. In pursuance of this objective Mexico has proposed discussing Mexico's outstanding territorial claims and its claim to a nine-mile territorial sea. Actually, Mexico hopes we can accept Mexico's claims before the visit and simply have President Kennedy provide confirmation. Acceptance of the 1911 Chamizal award would provide the best single commitment of this nature for which the Mexican President could hope. Mexico will also seek definite assurances on our part regarding a program to solve the Colorado River salinity problem.

The Mexican President would prefer to avoid any discussion of Cuba. Mexican policy is to ignore the Cuban situation, because the President and his advisers believe that the Cuba problem will eventually solve itself. With

a history of intervention in Mexico by the U.S., Mexico also feels that any acquiescence on its part on intervention in Cuba might later be used to justify interference in Mexican affairs. López Mateos will also prefer to avoid any discussion of Sino-Soviet intervention in the Hemisphere or the threat that such intervention poses to the security of Mexico, the United States or the Hemisphere in general.

~~CONFIDENTIAL~~
PTM B-3/3
June 19, 1962

THE PRESIDENT'S TRIP TO MEXICO
June 29 - July 1, 1962

BACKGROUND PAPER

Communism in Mexico

Summary

Mexican officials have long tried to belittle the communist problem in Mexico on the ground that the number of known Communist Party members is relatively small, and that the Mexican Revolution offers an adequate medium to satisfy the aspirations of the Mexican masses for social and economic improvement. While the Communists are not numerically strong, they wield a disproportionate influence in the country by their presence in schools and universities, in the Government itself, in some labor unions and in farm associations. The administration of President Lopez Mateos has jailed some of the most active Communists when they have directly attacked the Government.

Background

Mexico has a significant communist problem but, in its desire to be liberal and tolerant of minority opinion, it frequently fails to take effective action to protect itself from internal communist influence and aggression. There is also a widespread belief among intellectuals and officials, apparently including the President of the Republic, that some ill-defined type of socialism is now the wave of the future. The Mexican Revolution's postulates, now largely embodied in the Constitution of 1917, are also believed by many Mexicans to be so advanced as to give their country a certain degree of immunity from the social and economic appeals of communism.

The communist effort in Mexico is two-pronged. On the one hand, there are the Mexican communist parties and front-organizations working to spread communist influence through national institutions. On the other, there is the presence of Soviet bloc diplomatic missions directing their efforts against the United States and giving direction to the national communist elements of Mexico and Central America.

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The parties that openly avow communist affiliation are:

The Mexican Communist Party (Partido Communista Mexicano -- PCM), of about 5,000 members and an additional 5,000 known sympathizers; this is a legally recognized political party but of insufficient strength to meet minimum membership requirements for having its candidate placed on ballots. (In the July 1958 Presidential election the PCM ran a candidate, but on a write-in basis).

The Mexican Workers' and Peasants' Party (Partido Obrero-Campesino Mexicano - POCM), of only 50 to 200 members and 800 known sympathizers, but highly vocal and claiming to represent the interests of tens of thousands of workers and peasants; a legally constituted party but too small to meet the requirements for placing candidates on a ballot.

The Popular Socialist Party (Partido Popular Socialista - PPS), of about 75,000 members and an estimated 150,000 sympathizers; the personal party of Vicente LOMBARDO Toledano, long-time pro-communist labor figure; a legal party with a large enough membership to meet minimum requirements (75,000 registered members) for placing candidates on ballots for Presidential and other elections.

Finally, the National Liberation Movement (Movimiento de Liberacion Nacional - MLN), which is not a political party, but rather claims it is simply a "civic organization;" created in mid-1961 by a number of prominent pro-communists, notably ex-President Lazaro CARDENAS, the MLN is a violently anti-United States, pro-Castro organization which, for the first time in Mexico, provides a common meeting ground for all communist and pro-communist groups; members of the PCM, the POCM and the PPS have also joined the MLN, which advances claims of as high as 300,000 "members" or adherents, undoubtedly exaggerated; the PCM is making a determined effort to gain full control of the MLN.

Mexican communists probably exert their largest influence in the field of education, both at the secondary and university level. The Normal School, which prepares teachers for the public school system, is also a center of communist activity. In the University, certain schools and principally those of Economics, and Political and Social Sciences, have well-known Communists on the teaching and administrative

staffs. Among labor unions, two of the three electrical workers' groups and the Teachers Union are Communist influenced. There are Communists employed in some Government ministries, for the most part on the working level. In the state of Nuevo Leon, the Governor is a Communist sympathizer and has appointed several aides who are known Communists.

Recent Developments

The Government has acted decisively against Communists when the vital interests of the state have been directly threatened. In March 1959 the Communist leader of the Railroad Workers' Union was arrested during a strike that halted service on two major railroads. Two members of the Soviet Embassy were expelled from the country for alleged participation in the planning of the strike. This union leader is now serving a five-year sentence. During the height of pro-Castro student demonstrations in August 1960 attacks were also directed to the Government leadership. Famed muralist Alfaro SIQUEIROS, high officer of the Mexican Communist Party, was arrested. He was recently sentenced to an eight-year term in jail.

MEXICO 1958

CARDENAS DEL RIO,

LAZARO.

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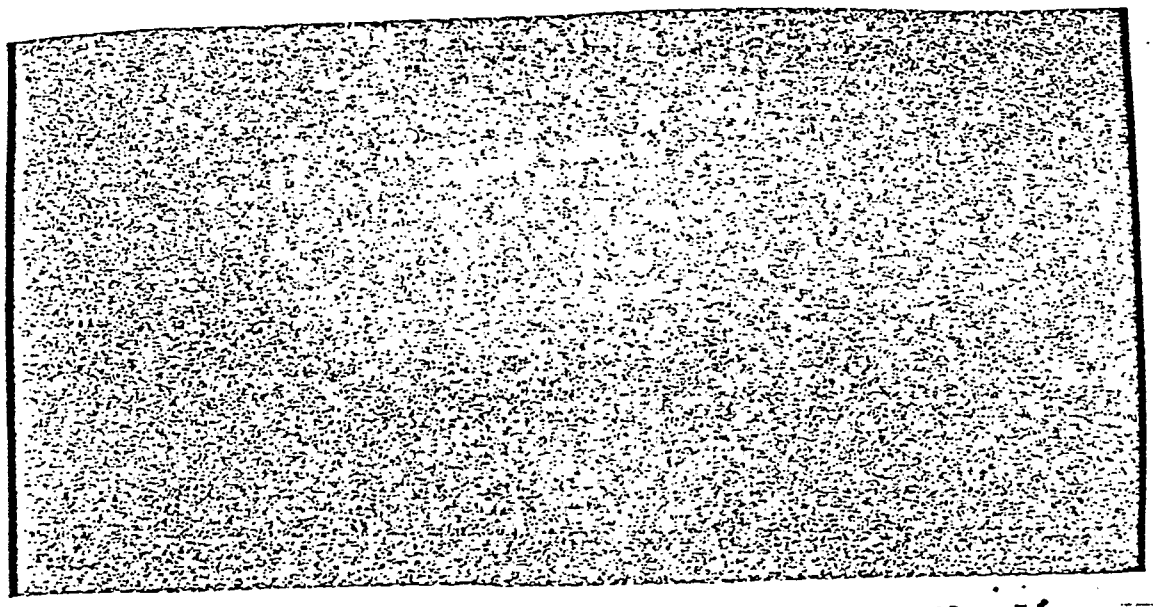
CARDENAS del Río, Lázaro — MEXICO
(Pronounced: CAHR-deh-nahs)

Former President of Mexico

General Cárdenas, former President of Mexico (1934-40) and one of Mexico's most controversial personalities, has been indirectly, but very influentially, involved in politics for the last seventeen years. The actual extent of his present power is debatable: many Mexicans believe that he still has great influence in Mexico; while others feel that he has lost much of his power and prestige, since his activities have been rather effectively restricted by the López Mateos government. With Cárdenas' retirement from the army in January, however, and his withdrawal from the government's Party of Revolutionary Institutions (Partido Revolucionario Institucional - PRI), López Mateos no longer has direct avenues of control over the ex-President's actions, statements and travels. However, Cárdenas continues to hold the position of Executive Director of the Balsas River Development Project, to which he was named in December 1961 when President López Mateos brought the six living ex-Presidents into his government.



Born 21 May 1895, into a predominantly Indian family, Lázaro Cárdenas del Río received only a sixth-grade education and began working at an early age in a printing shop. He joined the revolutionary forces of General Guillermo García Aragón in

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Approved for Release
Date 27 October 1980

1913, and participated in many revolutionary campaigns, becoming a captain at the age of 18 and a general ten years later. Outstanding posts he has held include those of Military Governor of the State of Veracruz (1918); Provisional Governor of Michoacán (1920) and Governor of that State (1928-30); President of the Executive Committee of the National Revolutionary Party (Partido Revolucionario Nacional - PRN) (1930); Minister of Interior (August-October 1931); Minister of War and Marine (1933); President of Mexico (1934-40); Commander of Mexican Forces, Pacific Coast (1942); Minister of National Defense (1942-45); Executive Director, Commission for Development of the Tepalcatepec River Valley (1947-57); and Executive Director, Grijalva River Valley Development Commission (1954). In 1948 Cárdenas turned down an offer of the Presidency of the UN Food and Agricultural Organization (FAO), and in 1954 offered to resign his post with the Tepalcatepec Commission, after criticism and allegations charging misuse of funds; his resignation was not accepted by the then President, Ruíz Cortines. From October 1958 to February 1959 he made a world tour which covered many Western and Iron Curtain countries, including the USSR and Communist China.

He was listed as a vice president of the World Peace Council at the World Peace Congresses at Helsinki (August 1955) and Stockholm (July 1958) and sponsored the Latin American Conference for National Sovereignty, Economic Emancipation and Peace at Mexico City (March 1961). An organizer of the January 1962 "People's Conference" at Havana, he was prevented from attending the conference by the Mexican government which declared that if he went to Cuba he would lose his Mexican citizenship. Previously, in April 1961, Cárdenas had arranged to fly to Havana to assist in the defense of Cuba at the time of the Bay of Pigs invasion but (reportedly, by direct order of the President) the aircraft which he had chartered was not permitted to take off.

General Cárdenas is married to the former Amalia Solórzano, by whom he has a son, Cuauhtémoc, an engineer in his mid-twenties; he also has an illegitimate daughter, Alicia, believed to be in her late twenties or early thirties. He speaks no foreign languages.

June 1962

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(34)

OFFICE OF THE SECRETARY OF DEFENSE
WASHINGTON 25, D.C.

MONGOOSE

5 July 1962

MONGOOSE

MEMORANDUM FOR THE SPECIAL GROUP (AUGMENTED)

From: Brig. Gen. Lansdale

Subject: Progress, Operation Mongoose

President in Mexico. State reported that President Kennedy's visit to Mexico greatly enhanced U.S. good-will in Mexico, was marked by the absence of pro-Castro propaganda, and fulfilled U.S. plans to impress upon Castro that Mexico, upon whom the Castro regime counts as an ally, is solidly with the United States and the West. In discussions about Cuba, President Lopez Mateos expressed the Mexican view that Castro was in trouble and that his regime would fall of its own weight. President Kennedy expounded the U.S. view of the Cuban problem; State believes this should ease the way for future discussions about Cuba with the Mexicans.

Joint Communique. The joint communique issued by President Kennedy and President Lopez Mateos, included a topic of interest to Operation Mongoose: "Both presidents reaffirmed the dedication of their countries to the ideals of individual liberty and personal dignity which constitute the foundation of a civilization which they share in common. In consonance with their dedication to these ideals and acting always as sovereign and independent countries, which decide their own policies and their own courses of action, they propose to respect and maintain the principles of non-intervention -- whether this intervention may come from a continental or extra-continental state -- and of self-determination of peoples."

The UPI reported that the Mexican press and political observers hailed this joint message as evidence of President Kennedy having "surrendered" to Mexico's policy of "hands off Cuba." In response to my query, the Department of State said: "There were no developments resulting from the President's trip to Mexico, including the text of the joint United States-Mexico Communique, which alter the basic guidelines governing the Cuba project."

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Operations. My visit to the Miami area included discussions with the operations staff of the CIA station, which carries the brunt of current work on Operation Mongoose. I was pleased to note that CIA has built a team which has a number of people experienced in operations into Communist-controlled areas (Europe and Asia), whose know-how strengthens the operations of people with Latin American experience. They have some problems, most of which are being resolved on the operating level. Some problems involve policy matters, which are being staffed for presentation to you.

Overall, this is a splendid effort by CIA within present guidelines. On intelligence-collection, the magnitude of the special emphasis given the operation is indicated by the presence of 45 agents now in the Habana area alone (a rather remarkable accomplishment in a Communist capital where there is no official U.S. presence). In addition, there are agents and teams in the provinces; efforts are being made to complete the provincial coverage at an early date, since there are some areas insufficiently covered now.

"Voice of Cuba." The separate CIA weekly report noted the successful initial broadcasts [redacted] the U.S. publication of the fact that such broadcasts were heard in the U.S., and the replay of this news back into Cuba for the general public. It is noted that UPI carried this news item, but spiced it up with added stories of Castro's use of militia against guerrillas in Matanzas. The two stories put together by UPI have no relationship in reality, and the "Voice of Cuba" broadcasts are being closely directed to fit in with other operations and to keep within Mongoose guidelines.

Diplomatic. State reports that diplomatic efforts are being made to block Cuba's application for accreditation to the European Economic Community. Similarly, efforts are being made to exclude Cuba from the proposed Latin American Free Trade area.

Contingency Planning. Rumors in mid-June of a Cuban uprising led to my tasking Defense for further contingency planning, including an inter-departmental plan. Defense reports this planning is progressing well. As an interim report, [redacted]

[redacted] You will be informed, when this planning is completed.

Defense Intelligence. Defense is reviewing actively its responsibilities for intelligence collection in Cuba, with a view of strengthening the effort considerably, [redacted]

Voice of America. USIA reported that VOA concentrated mostly on the President's trip to Mexico. Other telling news items were a Costa Rican labor union condemnation of the Castro tyranny, interviews with Cubans who had escaped from a concentration camp and who gave minute details of the terrible conditions, a quote from Castro's own press about chaotic administration (367 days to answer a letter from a Cuban asking permission to acquire industrial equipment), the story of Cuban students disappointed with Russian agricultural schools (VOA pointed out that Russia, with its own agricultural failures, was not in a position to teach others), and an interview with a person from Cardenas where the recent hunger demonstration led to a big Castro military show of force.

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3. Mr. Gilpatric
4. Mr. McCone
5. Mr. Kennedy
6. General Lemnitzer
7. Chief of Operations

5e.

The White House
Washington

1962 OCT 4 AM 9 44

TWN1 101 VIA RCA

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THE PRESIDENT

THE WHITE HOUSE WASHINGTON

DESDE QUE SALI DE MEXICO HE VENIDO SIGUIENDO CON
INTERES EL VUELO DEL COSMONAUTA SCHIRRA, Y AHORA QUE
LO HA COMPLETADO VENTUROSAMENTE ME ES GRATO EXTENDER A USTED,
SENOR PRESIDENTE, MIS MAS CORDIALES FELICITA CIONES,
ROGANDOLE LAS HAGA EXTENSIVAS AL PUEBLO NORTE
AMERICANO, AL COSMONAUTA Y A TODOS LOS QUE CON EL

HAN COLABORADO EN ESTA EMPRESA QUE INDUDABLEMENTE CONTRIBUIRA
AL AVANCE DE LA CIA, EN BENEFICIO DE LA HUMANIDAD
ENTERA.

ADOLFO LOPEZ MATEOS PRESIDENTE DE LOS ESTADOS UNIDOS MEXICANOS

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FROM : JOSEPH A. CALIFANO, JR.
TO : ICCCA
TITLE : ICCCA: TRANSMITTAL OF INFORMATION
DATE : 07/02/63
PAGES : 97
SUBJECTS : LISA HOWARD'S INTERVIEW WITH CASTRO

ANTI-SUBVERSION CAPABILITIES AND EXTENT OF CASTRO-COMMUNIST THREAT IN LATIN AMERICA

CUBAN-TRAINED PERUVIANS CAPTURED

OAS REPORT

SINO-SOVIET INFLUENCE IN WESTERN HEMISPHERE

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[R] - ITEM IS RESTRICTED

Cover ltr

~~SECRET~~ Sensitive

July 2, 1963

MEMORANDUM NO. 49 FOR GENERAL EARLE G. WHEELER (JCS)
CAPTAIN E. R. ZUMWALT, JR., USN (OSD)
MAJOR GENERAL W. B. ROSSON, USA
REAR ADMIRAL W. WENDT, USN
MAJOR GENERAL J. W. CARPENTER, III, USAF
BRIGADIER GENERAL H. M. ELWOOD, USMC

SUBJECT: Interdepartmental Coordinating Committee of Cuban Affairs
Transmittal of Information

Attached for your information and possible use are copies of four separate items concerning Cuba which have been provided by the Coordinator of subject committee.

The item concerning Mrs. Lisa Howard's Interview with Castro is particularly sensitive and should be handled accordingly.

Signed
Joseph A. Califano, Jr.

Joseph A. Califano, Jr.
General Counsel

Attachments (4)
1. Howard Interview (Secret Sensitive)
2. Anti-Subversion Capabilities (Secret)
3. Cuban-trained Peruvians (Conf-Noforn)
4. COAS Report on Subversion (Unclassified)

cc: Mr. Yarmolinsky, OSD (w/atchs)
General Carroll, DIA (w/atchs)

Mr. Califano
Lt Col Patchell
ASG

FILE

~~SECRET~~ Sensitive

No. ____ of 54 copies, Series B

Copy No 37 Series B

DEPARTMENT OF STATE

~~CONFIDENTIAL~~

Assistant Secretary

May 27, 1963

~~SECRET~~

MEMORANDUM

TO : Members - Latin American Policy Committee

FROM : ARA - Mr. Martin, Chairman

SUBJECT : Anti-Subversion Capabilities and Extent of Castro-communist Threat in Latin American Countries.

I attach a country by country compilation which attempts to set forth in brief fashion their anti-subversion capabilities and the extent of the Castro communist threat. I believe that in most cases the material has been checked out with your staffs.

This was initially prepared for another purpose but it occurs to me that it might prove a useful jumping off point for a LAPC discussion of whether in the rather considerable number of countries with inadequate capabilities there are any things that we might do to improve those capabilities more rapidly than present policies are doing. Every now and then this kind of overall look may be a stimulating supplement to our country paper discussions.

I will schedule this for discussion at a meeting in two or three weeks.

Attachments:

a/s.

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ARA:EMMartin:tp

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Atch 2

[redacted]

This document consists of 1 pages
No. 1 of 6 Copies, Series A

MEXICO

[redacted]

Anti-Subversion Capabilities and
Extent of Castro-communist Threat

1. Capabilities

a. Police - In Mexico City and possibly in Guadalajara and a few others the Police are capable of dealing with a large-scale violent demonstration. Outside of these they are not.

b. Military - The Army is used as a national police force and is generally capable of handling violence. However, its equipment is antiquated and the Army could not deal effectively with a wide-spread internal uprising.

c. Intelligence - The Ministry of Government, in cooperation with the intelligence services of the Armed Forces and US agencies, does a reasonably good job of following subversive activities. The problem is complicated because of the diplomatic missions of the USSR, Poland and Cuba and because Mexico has given haven to Spanish refugees, American communists and others. Because of the low pay it is presumed that the Soviet Bloc has recruited agents in the various security services.

2. Will to Act

Although there is a disquieting toleration of communist activity, the Government, as it announced in June 1961, would probably seek to deal firmly with demonstrations and other violence. (In the 1959-61 period when Government attitude was equivocal, there was a wide-spread, communist-led RR strike with apparent involvement of Soviet Embassy personnel, and the post-Bay of Pigs demonstrations got out of hand. However, violence in September 1961 and late 1962 was promptly controlled, albeit with some loss of life.)

3. Extent of Threat

Mexico has a difficult security problem which could assume serious proportions with determined organization. The Mexican Government has been successful in keeping the communist elements split, and the communists themselves have fragmented on doctrinal differences and because of personality conflicts among communist leaders. The National Liberation Movement and its offspring, the Independent Farmers Central, have made wide-spread organizing efforts. These organizations do not appear to pose a serious threat at present. However, they are trying to organize the rural population, especially the estimated three million landless peasants who feel deserted by the Mexican Revolution and the Administration party, the Partido Revolucionario Institutional (PRI).

Clearances: INR:DOD

[redacted]

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JLM - T/10
February 15, 1964

MEETING OF PRESIDENTS JOHNSON AND LOPEZ MATEOS
IN CALIFORNIA
February 20-22, 1964

Talking Points

U.S. - MEXICAN COOPERATION ON CUBA
(To be raised by President)

1.3 (a)(5)

Drafted by:	Cleared by:
ARA - Mr. Crimmins	CCA - Mr. Follestad
S/S-S Hawthorne Mills, Room 7239A, Ext. 6958	

~~SECRET~~

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SANITIZED
E.O. 12356, Sec. 3.4
NLJ 91-97
By KP, NARA, Date 5-20-92

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JLM - B/17
February 15, 1964

MEETING OF PRESIDENTS JOHNSON AND LOPEZ MATEOS
IN CALIFORNIA
February 20-22, 1964

Background Paper

U.S. - MEXICAN COOPERATION ON CUBA

Political Relations with Cuba

Mexico has taken unpublicized measures to restrict travel to and from Cuba and has cooperated with us against Castro in other ways which do not draw public attention. For domestic political reasons, however, the Mexican Government tries to avoid having to take a public stand in the OAS or elsewhere on the issue of action against Cuba. Mexican leaders have no sympathy for the Castro regime, and they realize that their vital relations with the United States can be jeopardized by seeming to be neutral on the Cuban issue. Nevertheless, there is a vocal minority in Mexico, led by former President Lazaro Cardenas, which still supports Castro. The hand of this pro-Castro element is strengthened by Mexico's traditionally strong opposition to invervention in the internal affairs of another state. With a national election in the offing, Mexican leaders are extremely reluctant to have the Cuban issue emerge as a divisive political force. Proposals for firm OAS measures against the Cubans on the Venezuelan arms cache issue therefore will present a problem to the Mexican Government.

Mexican Transportation Links to Cuba

No Mexican vessels have called at Cuba during the past three years.

Mexican air service to Cuba is limited to infrequent unscheduled charter flights, and twice monthly unscheduled flights (with no passengers) by the Mexican carrier, SAESA, to move accumulated air mail to Cuba, primarily originated by Cuban exiles in the United States.

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Group 3
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On the Cuban side, Cuban vessels--and Soviet trawlers based on Cuba--make regular calls at Mexican ports. The Cuban airline, Cubana, flies on the average between once and twice weekly, and occasionally all flights have been suspended for brief periods for maintenance or commitments to other runs. We have approached the Mexicans both bilaterally and through the OAS in order to control travel to and from Cuba because it allows Latin American subversives to obtain special training. Mexican cooperation has been good. They have restricted the issuance of Mexican transit visas and have generally honored the requests by other Latin American Governments not to permit movement of their nationals whose passports were not validated for travel to Cuba. Cuban aircraft of Soviet manufacture have been prevented from landing in Mexico.

Economic Facts

Mexico is a minor trading partner of Cuba. During the first six months of 1963, Mexico exported $180,000 to Cuba in drugs and food products. Mexico did, however, export some yellow sulfur, a critical item for Cuban nickel production. Imports from Cuba are insignificant.

Despite continuing good cooperation, Mexico is, according to a Department of Commerce analysis, one of the three most important transshipment points for United States origin goods.

Drafted by:	Cleared by:
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MEETING OF PRESIDENTS JOHNSON AND LOPEZ MATEOS IN CALIFORNIA
February 20-22, 1964

Index of Basic Background Papers

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JM B/2
February 12, 1964

MEETING OF PRESIDENTS JOHNSON AND LOPEZ MATEOS
IN CALIFORNIA
February 20-22, 1964

Background Paper

POLITICO-ECONOMIC SITUATION

As Mexico looks forward to a change in national administrations later this year, the prevailing mood is one of optimism. The dominant political party, the PRI, has chosen in Gustavo Diaz Ordaz a presidential candidate who has a reputation as a forceful personality and who was considered the most moderate of all the aspirants to the PRI nomination. This does not suggest, however, that he will make any significant change in Mexican policy. His selection has engendered confidence in the continued stability of Mexico's unique political system. The Mexican economy has recovered steadily since the recession of 1961. With business men reassured by the nomination of Diaz Ordaz, even the slump which is traditional during election years in Mexico may not materialize.

During his final year in office, President Lopez Mateos will try to avoid the emergence of any issues which might result in national or party disunity and thereby endanger the peaceful transfer of power to his successor. Major innovations in domestic policy are unlikely. In foreign affairs, the Mexican Government regards the issue of Cuba as the most serious threat to national unity. Mexican leaders feel themselves caught on the horns of a dilemma. On the one hand, there are the nationalistic and historic pressures to resist any semblance of U.S. intervention in Latin America, and on the other, the reality of Mexico's overwhelming economic dependence on this country. Thus Mexico's Cuban policy is aimed at avoiding any confrontation in the OAS which would force it to take a public stand on further action against Castro. Farther afield, Mexican public opinion is not easily aroused by events outside the Western Hemisphere, and President Lopez Mateos can be expected to pursue actively his goal of building an image as a world statesman, following an "independent" foreign policy.

He

(in quotes...)

~~SECRET~~
GP-2
Exempted from automatic downgrading
by
Assistant Officer in Charge
Office of Mexican Affairs

He will receive President de Gaulle in Mexico City in March, and is reported to be planning to visit Great Britain, Belgium, Italy, and, possibly, the Soviet Union in the spring. Lopez Mateos recently permitted the establishment of trade and cultural contacts with Communist China. But he has assured us he will not establish diplomatic relations with Red China.

When Gustavo Diaz Ordaz begins his six-year term on December 1 the most difficult problem he will inherit will be the extreme poverty of the millions of inhabitants of rural Mexico. In his campaign speeches, Diaz Ordaz has vowed to attack the agrarian problem and has shown a good grasp of the measures needed to make progress in that area. A major task of the new President will be to move the divided and graft-ridden Mexican bureaucracy to bring to bear on the agrarian problem a number of essential technical, financial, and other institutional reforms.

In attempting to bring to Mexico's peasantry the benefits of a developing society, Diaz Ordaz will have a number of factors in his favor. Due to its good record of price and exchange stability, Mexico's credit standing abroad is excellent; it should be able to continue to borrow several hundred million dollars a year for its development needs. Mexico has an experienced and enterprising private business elite, who, with proper encouragement from the Government, go a considerable distance in providing the several hundred thousand new jobs in industry which are needed every year to drain off the surplus rural population.

Mexican - United States relations are very good, and should continue to be, provided we demonstrate to Mexico that we will respect its vital interests. In the present context, this means solving the Colorado River salinity problem and softening the effect of the termination of the bracero program.

GP-2
Exempted from automatic downgrading
by
Assistant Officer in Charge
Office of Mexican Affairs

Drafted by:	Cleared by:
ARA/MEX:RJBloomfield	ARA/MEX:RMSayre
S/S-S:Hawthorne Mills, Room 7239A, Ext. 6958	

~~CONFIDENTIAL~~
JLM - B/3
February 12, 1964

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MEETING OF PRESIDENTS JOHNSON AND LOPEZ MATEOS IN CALIFORNIA
February 20-22, 1964

Background Paper

COMMUNISM IN MEXICO

Summary

Mexican officials discount the Communist problem in Mexico on the ground that the number of known Communist Party members is relatively small, and that the Mexican Revolution offers an adequate alternative to satisfy the aspirations of the Mexican masses for social and economic improvement. While the Communists are not numerically strong, they wield a disproportionate influence in the country by their presence in schools and universities, in the Government itself, and in some labor unions and farm associations. The administration of President Lopez Mateos has jailed some of the most active Communists when they have directly attacked the Government.

Background

Mexico has a Communist problem but, in its desire to be liberal and tolerant of minority opinion, it frequently fails to take effective action to protect itself from internal Communist influence. There is also a widespread belief among intellectuals and officials, apparently including the President of the Republic, that some ill-defined type of socialism is now the wave of the future. The Mexican Revolution's

postulates

postulates, now largely embodied in the Constitution of 1917, are also believed by many Mexicans to be so advanced as to give their country a certain degree of immunity from the social and economic appeals of communism.

The Communist effort in Mexico is two-pronged. On the one hand, there are the Mexican Communist parties and front organizations working to spread Communist influence through national institutions. On the other, there is the presence of Soviet bloc diplomatic missions (including Cuba) directing their efforts against the United States and giving direction to the national Communist elements of Mexico and Central America. Communist China is also intent on establishing a presence in Mexico and recently has made some headway by staging a trade fair and by buying Mexican wheat and cotton. Mexico, however, does not have diplomatic relations with Communist China and has in the past supported continuing the representation of the Nationalist Chinese in the United Nations.

The Communist movement in Mexico consists of a multitude of parties and front groups, reflecting both Moscow's willingness to use a variety of approaches to increase Communist power in Mexico as well as the inability of native Communists to agree.

An orthodox Communist party, the Partido Communista Mexicano (PCM) has at most 5000 members. A pseudo-nationalist Communist party, the Partido Popular Socialista (PPS) has about 50,000 members and is registered to take part in national elections.

The most serious effort which the Mexican Communists have made in recent years to obtain mass support was the

formation

formation in 1961 of a pro-Castro front group, the National Liberation Movement (MLN). The MLN was founded at the height of pro-Castro sentiment in Latin America and had as its unofficial head the still popular ex-President of Mexico, Lazaro Cardenas. Beginning with the early defection of the PPS, the largest Communist party, and coinciding with the decline of Castro's popularity over the past two years, the MLN has failed to materialize as a serious threat to the PRI's domination of the political arena. A similar organization sponsored by the leaders of the MLN to organize the peasantry also has met with little success. The latest political efforts of the Communists have taken the form of a front party, the Frente Electoral del Pueblo (FEP) which failed to meet registration requirements, but will conduct a write-in campaign for its candidate.

Government Action to Check Communism

Whenever the Communists have directly threatened public order, the Mexican Government has acted decisively against them. The Government has broken illegal strikes led by Communists, prevented or disbanded demonstrations which threatened to get out of hand, and arrested and sentenced to long jail terms the Communist leaders of such disturbances. The PRI presidential nominee, Gustavo DIAZ ORDAZ, as head of the Government department which has had the job of preserving internal security, issued the orders for these crackdowns on Communist agitation, and has generally adopted a hard line toward the Communists.

Although the Communists do not represent an electoral threat to the PRI and have not been allowed to get away with civil disorder, they have been successful in infiltrating the teaching profession and to a lesser extent,

government

government departments, trade unions, and peasant associations. It is in this area of infiltration and indoctrination that the Mexican Government has been the most negligent and where the Communist threat is greatest in Mexico. (*)

Drafted by:	Cleared by:
ARA/MEX:RCBrown	INR/RAR:AHHaynes
ARA/MEX:RJBloomfield	
S/S-S:Hawthorne Mills, Room 7239A, Ext. 6958	

ADDRESS OFFICIAL COMMUNICATIONS TO
THE SECRETARY OF STATE
WASHINGTON 25, D. C.

DEPARTMENT OF STATE
WASHINGTON

Copy Mates Visit Brandy
Orig to Duncan

~~SECRET~~

FEB 18 1964

MEMORANDUM FOR THE PRESIDENT

Subject: Your Meeting with President Lopez Mateos

We do not expect to make any major political decisions but want to give new emphasis to the friendly relations which exist between Mexico and the United States. These relations are now at an all-time high. Mexico felt it had a real friend in President Kennedy. They feel the same relationship exists with you but want to be reassured. A warm Texas handshake and abrazo when you greet Lopez Mateos at Los Angeles would symbolize the continuance of that relationship.

We want to stress the identity of interests of our two countries and our ability to work out in the "spirit of El Chamizal" any problems that may arise between us.

Despite the informal atmosphere of the visit, we should give scrupulous attention to Mexico's extreme sensitivity on sovereign equality and Mexico's strong desire to avoid any appearance of subservience to the United States.

Lopez Mateos speaks for the Mexican Government and no important decision is made without his approval. He has followed an "independent" foreign policy but knows that good relations with us, especially in the economic sphere, are essential to his country. At times his foreign policy has been too independent--for example on Cuba and in commercial and cultural relations with Communist China.

But

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GROUP 2
Exempted from

But when fundamental issues are at stake we have usually found him understanding and willing to be helpful--controlling travel of Castro agents, non-recognition of Red China, offering help on Panama.

Lopez Mateos has chosen his successor, Gustavo DIAZ Ordaz, who will take office in December 1964 after elections in July. Power is therefore drifting toward Diaz Ordaz.

Enclosed is a paper on points which it is suggested you raise at the meeting, and those which it is believed Lopez Mateos will raise.

/s/ Dean Rusk

Dean Rusk

Enclosure:

Paper on points to be raised at the meeting

MAJOR POINTS OF INTEREST TO THE UNITED STATES

1. General Information and Hemisphere Relations

We desire to continue close working relations with Mexico both within and outside the OAS and the UN.

We hope Mexico will continue to use its key political and geographic position to help control Castro/Communism. Mexico is very sensitive about publicizing its cooperation and we have carefully avoided any public comment on Mexican control measures.

Mexico has offered its assistance on Panama. Mexico is not aware of the role of President Orlich of Costa Rica in mediation efforts and we do not desire that this come to Mexico's attention. We welcome Mexico's assistance within an OAS context.

2. Red China

The coming visit of De Gaulle to Mexico and Brazil in March has prompted speculation that these two countries are about to recognize Red China. [redacted] We do not desire to raise this issue, but if Lopez Mateos raises it, we should let him know we are aware of his assurances.

6(4)
[24]

3. Mexico's Role in the Alliance for Progress

Mexico's participation in the Alliance is essential to its success. Mexico has played a leading role in IA-ECOSOC and has named the Director General of the Bank of Mexico as its representative to CIAP. It has cooperated with us in providing extensive training facilities for Latin American technicians. We want to encourage Mexico to make a greater

contribution

contribution. Mexico is making renewed efforts to promote private enterprise and we also want to encourage Mexico along this line. We should continue to cooperate with Mexico in maintaining financial stability and promoting economic development.

4. Disputed Tracts on Rio Grande

There remain several tracts on the Rio Grande over which sovereignty is in dispute. We desire to have the International Boundary and Water Commission study these problems and recommend a solution.

5. Control of Narcotics

Mexico and the United States are cooperating in controlling the importation of narcotics and dangerous drugs into the United States. We should strengthen this cooperation in the mutual interest of both countries. We hope therefore that Mexico will agree to periodic meetings of the highest law enforcement officers of the two countries.

6. Desalinization Plant at Tijuana

An appraisal report by Interior shows that this is the most economical way to supply water to Tijuana. We are prepared to go ahead with a feasibility study if Mexico desires and will share the cost.

MAJOR POINTS LOPEZ MATEOS IS EXPECTED TO RAISE

1. Salinity Problem on Lower Colorado

The Mexican President wants a reaffirmation of President Kennedy's commitment "to reach a permanent and effective solution at the earliest possible time" of the salinity problem. We can agree but should avoid any commitment on timing. If Lopez Mateos raises the related problem of the

groundwater

groundwater recovery program at Yuma, we agree that the Boundary Commission should study the problem. Farmers in the lower Rio Grande Valley are seriously concerned about saline drainage discharged into the river by Mexico and want the Boundary Commission to achieve an early solution to this problem.

2. Bracero Program

The Mexican Government is privately seriously disturbed about the termination of this program. Congressional opposition to it is strong and we cannot commit ourselves to continue the program. We are looking into the problem to see if anything can be done to help Mexico. One possibility is an expanded community development program in Mexico through private channels (P.L.480 foodstuffs through U. S. voluntary agencies) if Mexico is interested.

3. Mexico's Concern about U. S. Trade Policies

Mexico is concerned about United States restrictions or threatened restrictions on textiles, lead, zinc and meat and other products and United States cotton policies which it claims hurt Mexican cotton exports to the world market. We recognize that we are natural markets for each other. We desire to expand trade, promote competition and develop markets. We want to maintain or expand the present level of access to each other's market but we would not be able to guarantee Mexico its present share of our market in each commodity or a share in increased consumption.

4. Chamizal Settlement

Lopez Mateos wants to be recorded in history as the man who returned the Mexican flag to the Chamizal. He wants a ceremony at the Presidential level at El Paso-Ciudad Juarez before December 1964 to symbolize the Chamizal settlement. We should only agree to consult later in the year on an appropriate ceremony and a possible date.

39c

NATIONAL SECURITY COUNCIL

Talk S/S Peggy 12/10/64

~~CONFIDENTIAL~~

To Jayne!

November 23, 1964

Bromley Smith:

Attached are memoranda of conversation on the meeting with the Mexican President-Elect.

I recommend that they be approved.

I suggest State excerpt Part I and send only that part to the other agencies that need to have it.

Part II should be made Limited Distribution. If it should get out to the public it could really hurt Diaz Ordaz.

OIS

~~CONFIDENTIAL~~

ARA:TCMann:ps:spd
(Drafting Office and Officer)

Approved in White House
12/10/64

~~CONFIDENTIAL~~ - LIMITED DISTRIBUTION

6194

DEPARTMENT OF STATE

15979

396

Memorandum of Conversation

Part II of II

DATE: November 12, 1964
5:00-6:00 p.m.
LBJ Ranch, Texas

SUBJECT: Mexican-Cuban Relations

PARTICIPANTS: President Johnson
President-elect Gustavo DIAZ ORDAZ
Ambassador CARRILLO Flores
Thomas C. Mann TCM

COPIES TO: S/S
G
INR/OD
ARA - 5
Amembassy MEXICO CITY
White House - 2

DECLASSIFIED
Authority State ltr. 3-22-76
By Dwr, NARS, Date 4-30-76

While in the automobile, the President asked Lic. Diaz Ordaz what the Mexican people thought about Castro.

The Licenciado said that there was a small group in Mexico who loathed Castro and, at the other extreme, another small group who thought he had the cleanest political banner in the hemisphere. The great majority of people were in between and there were many variations in the way they thought.

He said that Castro had no appeal for the great majority of Mexicans and did not constitute a political threat in Mexico. The majority of the Mexican people did not like the idea of intervening in Cuba's internal affairs, particularly since historically Cuba had been a refuge for Mexican politicians in exile and, conversely, Mexico had been a haven for Cuban politicians who had fallen on evil days. Mexico's hope was that the Cuban people themselves would find a way to return Cuba to the democratic path and even harbored the idea that at some propitious time in the future -- Mexico knew that this was not the time -- Mexicans might be able to be the bridge over which Cuba could come back to freedom. Meanwhile, Mexicans were disenchanted with the undemocratic procedures and the excesses in Cuba.

FORM DS-1254

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GROUP 3
Downgraded at 12 year

The President asked what Licenciado Diaz Ordaz thought about the resolutions adopted at the Foreign Ministers Meeting concerning the isolation of Cuba. The Licenciado replied that he had not had an opportunity to study in depth the validity of Mexico's juridical position but in essence it was that the decision of the majority seemed to have been directed against a minority of four and was not binding on Mexico unless and until approved by the Security Council of the United Nations.

The President inquired whether this juridical position would not basically weaken the validity and effectiveness of the Rio Treaty -- whether it did not nullify the treaty and impair the ability of the American States to protect themselves against aggression in the future.

Licenciado Diaz Ordaz stated that he personally shared the President's preoccupation. He noted that the Security Council could hardly pass favorably on a resolution of this kind in view of the Soviet veto. At this point, Ambassador Carrillo Flores asked his President whether it was not true that the essence of the Mexican position was that the facts in the Venezuelan case did not support Venezuela's assertion that an act of "aggression" within the meaning of the Rio Treaty had taken place. The Ambassador suggested that there was a difference between the facts proven during the missile crisis of October 1962 and the facts alleged in the Venezuelan case.

Licenciado Diaz Ordaz said that there were many cases where aggression had been falsely charged. He said that, for example, Guatemala had in the past fabricated stories about alleged Mexican aggressions against Guatemala. He implied that Cuban complicity in the plot to overthrow the Venezuelan government had not been proven to Mexico's satisfaction. Taking then Ambassador Carrillo's suggestion, he said that he thought there was considerable merit in the idea that the Rio Treaty should not be invoked for relatively minor offenses of the type alleged by Venezuela but rather should be reserved for grave situations.

Licenciado Diaz Ordaz recalled Mexico's position during the October 1962 missile crisis and said that the United States could be absolutely sure that when the chips were really down, Mexico would be unequivocally by its side. He added that Mexico, for example, might not perhaps know about the details of what was going on in Viet-Nam or Cyprus but that he and the Mexican Government understood perfectly well what the stakes were and that Mexico's interests in a show-down would be parallel to ours.

Ambassador Carrillo noted that this was a very significant statement by the President-elect.

Licenciado Diaz Ordaz then went on to say that the juridical distinctions made by Mexico might not seem to be logical or profound. He said he would not argue that they were. He would say, however, that they were the product of Mexico's history and of Mexican tradition and sentiment. It would be unrealistic and no favor whatever to the United States for the Mexican Government to take a position on this or other issues which would be contrary to the opinion of the majority of the Mexican people. A Mexican Government policy not supported by the Mexican people would not endure. Moreover, there was considerable advantage when the issues at stake were not great if Mexico could continue to demonstrate its political independence and divergence on relatively minor issues. While divergence on relatively unimportant matters might at times create temporary discomfiture they also demonstrated that the American States did in fact enjoy independence.

The President thanked Licenciado Diaz Ordaz for his statements that Mexico would stand side by side with the United States in the event of a major crisis and did not further pursue this topic.

COMMENT: It was apparent that Licenciado Diaz Ordaz shared the President's concern about the vitality of the Rio Treaty and that he intended to give the subject further thought. I did not get the impression that the Licenciado had foreclosed the possibility of reconsidering Mexico's future relations with the Castro regime.

MEMORANDUM

48

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

INFORMATION

Wednesday - July 31, 1968 - 3:30 p.m.

rec'd 8:30P

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Student Disturbances in Mexico City

Since last Friday Mexico City has been the scene of almost constant student turmoil. The difficulty started when an authorized rally to celebrate the Cuban July 26 anniversary degenerated into vandalism and arson. The police intervened and had to use tough tactics against student participants to bring the situation under control.

The action against the students triggered increasingly violent confrontations between students and security forces in successive days, particularly on Monday and yesterday. The government had to bring in the riot police backed up by paratroopers to restore order.

We do not have an accurate picture of the number killed, injured and arrested. Unconfirmed reports claim four students are dead.

A cable from the Embassy this morning (copy attached) reports a claim by Mexican authorities that the Mexican Communist Party, with Soviet Embassy complicity, engineered the July 26 disturbance. The Embassy does not have independent information to back up this claim, but considers that Moscow may have ordered the militant tactics to counter the impact of events in Czechoslovakia.

There is no reason to think that Mexican security forces cannot control the situation. Events have not reached a point where President Diaz Ordaz has considered it necessary to stop his tour of the interior to return to the capital. What does worry Mexican officials is the image projected by the disturbances and the impact on the Olympics in which they have so heavily invested.

WGB

William G. Bowdler

Attachment

Mexico Embassy's message of July 30 (no. 6234).

~~SECRET~~

HAVE BEEN INTERPRETED AS SIGNAL FOR STRONGER TACTICS BY PCM. FACT THAT CUBAN AMBASSADOR WENT TO MERIDA INSTEAD OF STAYING IN CAPITAL FOR JULY 26 FIESTA SUGGESTS HE MAY HAVE KNOWN WHAT WAS COMING THOUGH HE WANTED TO AVOID ANY SUGGESTION OF CUBAN INVOLVEMENT.

4. WHILE SEEKING TO AVOID DIRECT INVOLVEMENT, SOVIETS MAY BELIEVE THAT MEXICAN ANXIETY TO AVOID ANY DIPLOMATIC CONTRETEMPS WITH COMMUNIST WORLD AS OLYMPICS NEAR GIVES SOVIET EMBASSY MORE ROOM FOR SUBVERSIVE MANEUVER. HOWEVER, THEY KNOW THEY RISK STRONG GOVERNMENT CRACKDOWN ON PCM. STATEMENT BY MEXICAN POLICE CHIEF WHO LINKED RECENT RIOTS WITH OLYMPICS BOUND TO RECALL TO PCM AND MOSCOW PRESIDENT'S WARNING ON MAY 7 IN TALK WITH PCM POLITBURO THAT GOVERNMENT WILL CRACK DOWN HARD IF PCM FORMENTS DISORDER IN NEXT FEW MONTHS. BUT PCM USED TO CRACKDOWNS AND MOSCOW MAY BE PROCEEDING BY LENIN'S OLD INJUNCTION "BETTER FEWER BUT BETTER."

5. DEPT MAY WISH TO PASS MOSCOW.
FREEMAN

~~SECRET~~

Department of State TELEGRAM

48

~~SECRET~~ 673

PAGE 01 MEXICO 06234 301948Z

SUMMARY

87-S
ACTION ARA 16

INFO NSCE 00,CIAE 00,DODE 00,GPM 04,H 02,INR 07,L 03,NSC 10,P 04,
RSC 01,SP 02,SS 20,USIA 12,NSA 02,SAH 02,EUR 15,NIC 01,CU 04,
RSR 01,/106 W

R 301900Z JUL 68
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC 7106

SANITIZED
E.O. 12356, Sec. 3.4
NLJ 95-120
By ___, NARA, Date 10-4-95

~~S E C R E T~~ MEXICO 6234

PASS TO WHITE HOUSE

1. [redacted] MEXICAN GOVT HAS SOLID EVIDENCE CORROBORATING PUBLIC CHARGES OF MEXICO CITY POLICE CHIEF THAT COMMUNIST PARTY ENGINEERED JULY 26 STUDENT FRACAS. GOVT EVIDENCE ALSO INCLUDES INDICATIONS OF SOVIET EMBASSY COMPLICITY (INCLUDING TAUNT BY A PCM OFFICIAL THAT SECURITY POLICE WOULD FIND NO IMPORTANT DOCUMENTS SINCE THEY WERE ALL IN SOVIET EMBASSY.)

2. MEXICANS OFTEN BLAME FOREIGN ELEMENTS FOR SUCH INCIDENTS AND PCM LATELY HAS STRESSED ITS DESIRE TO PURSUE LEGAL MEANS BUT EMBASSY CONSIDERS THAT STRONG POSSIBILITY EXISTS MOSCOW HAS ORDERED PCM TO ADOPT MORE MILITANT TACTICS. ONE MOTIVE MAY BE SOVIET DESIRE TO COUNTER IMPACT ON PCM OF CZECH EVENTS. PCM PAPER, LA VOZ DE MEXICO, AFTER INITIALLY CARRYING FAVORABLE ARTICLES ON CZECHOSLOVAKIA, COMPLETELY SILENT ON EVENTS IN LAST FEW WEEKS. LINKED TO THIS MAY BE DESIRE TO STRENGTHEN INTERNATION DISCIPLINE OF PCM AS ALSO SUGGESTED BY REFURBISHING AND MORE PROMPT PUBLICATION BY PCM OF INTERNATIONAL COMMUNIST JOURNAL REVISTA INTERNACIONAL.

3. MOSCOW AND PCM MAY BE SEEKING TO TAKE PLAY AWAY FROM PRO-CUBAN EXTREMISTS THOUGH ELEMENTS OF COMPLICITY ALSO SEEM PRESENT. PRO-SOVIET AND PRO-CUBAN STUDENT ELEMENTS JOINED IN JULY 26 CELEBRATION OF CUBAN ANNIVERSARY. REVISTA INTERNACIONAL APRIL ISSUE CONTAINING ARTICLE TAKING MORE FRIENDLY ATTITUDE TO CUBAN TACTICS HAS JUST BEEN ISSUED HERE AND MAY

66

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EFA004
GO WTE10
DE WTE 3771

FROM WALT ROSTOW
TO THE PRESIDENT
CITE CAP82409

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

THE PRESIDENT

SEPTEMBER 19, 1968

EMBASSY MEXICO REPORTS THAT SOME 10,000 TROOPS, INCLUDING ARMORED UNITS, OCCUPIED THE UNIVERSITY OF MEXICO CAMPUS LAST NIGHT.

THE REASON GIVEN BY THE GOVERNMENT WAS THE ILLEGAL OCCUPANCY OF UNIVERSITY BUILDINGS BY STRIKING STUDENTS.

THE EMBASSY COMMENTS THAT IT IS NOT YET CLEAR WHETHER THE ACTION TAKEN RESPONDED TO SOME NEW OR THREATENED MOVE BY THE STRIKING STUDENTS OR WHETHER THE GOVERNMENT BELIEVED IT COULD NO LONGER TEMPORIZE IN VIEW OF THE APPROACHING OLYMPIC GAMES AND THE LOCATION OF A NUMBER OF IMPORTANT OLYMPIC INSTALLATIONS ON THE CAMPUS.

STUDENTS ARE REPORTED TO BE MEETING TODAY TO DECIDE WHAT TO DO. WE HAVE NO INFORMATION YET ON THEIR REACTION AND PLANS.

DTG: 191955Z SEP 1968

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

File
Helms informed
B 1-5

Friday, September 27, 1968, 4:00 P.M.

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Security Considerations in Mr. Nixon's Planned Visit to Mexico

Director Helms is forwarding to you the attached CIA memorandum citing the potential dangers inherent in a visit to Mexico City October 15 which Mr. Nixon is planning.

The Secret Service has the legal responsibility for the security of Candidate Nixon under the provisions of the June 6, 1968, Joint Resolution. CIA is furnishing pertinent information to the Secret Service. Mr. Helms is indirectly asking whether he should also provide information directly to Mr. Nixon.

I believe it would be best to deal with Mr. Nixon on this subject through the Secret Service. If Mr. Nixon actually goes through with his plan and there are questions about whether he had been informed by CIA of the dangers of the trip, the response would be that Director Helms had made available to the Secret Service all information CIA had on the security situation in Mexico, in accordance with the Joint Resolution, bearing on this subject.

Put on my desk
W.W.R.

W.W. Rostow

✓ Tell Director Helms to send his information to the Secret Service only.

_____ Tell Helms that he should be responsible for getting security information to Mr. Nixon, in addition to sending it to the Secret Service.

_____ Call me

~~SECRET~~

3 of 3

CENTRAL INTELLIGENCE AGENCY

OFFICE OF THE DIRECTOR

27 September 1968

MEMORANDUM FOR: The President

I agree with the attached note and believe that Mr. Nixon should be made aware of the potential dangers inherent in his planned visit to Mexico City.

This may smack of excessive caution, but I recall rather vividly the public criticism leveled at this Agency when Mr. Nixon had a close call in Caracas some years ago.

I am not clear on the channels to Mr. Nixon on a matter of this kind. I know that the Secretary of State and the Secret Service have the responsibility for the safety of American officials when outside the United States.

Dick
Richard Helms
Director

Attachment - 1

~~S-E-C-R-E-T~~

CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

26 September 1968

Note for the Director re Mr. Nixon's Planned Visit to Mexico

The Secret Service has requested an estimate on security conditions for Mr. Nixon's planned visit to Mexico City on 13 October. Because we are now even more concerned about security conditions than we were a few weeks ago, we are updating our note to you of 6 September on the proposed visit, since cancelled, of Vice President Humphrey.

1. We have judged prior to past visits to Mexico by President Johnson or Vice President Humphrey that there would be little or no danger involved, either of an assassination attempt or of violent demonstrations on any major scale. But in view of the recurring troubles between Mexican students and the Diaz Ordaz administration, we cannot make the same judgment with any confidence for Mr. Nixon's proposed visit. The Mexican government has been able to control the student riots only through the use of army troops to back up the police. There have been scores of casualties and a number of fatalities on both sides, as the students have used firearms and Molotov cocktails. We believe that the situation will remain tense at least for some months, and that, with or without the occasion of a prominent visitor from the US, student extremists will attempt to mount demonstrations during the Olympics in order to embarrass the Mexican government.

2. If Mr. Nixon does make a visit in October to view the Olympic games, we think that the Mexican security forces would have appreciably more difficulty in protecting him than has been the case in the past for prominent visitors. We think that anti-US extremists among the Mexican students would undertake

~~S-E-C-R-E-T~~

demonstrations directed against him specifically, and that these would be likely to turn ugly, producing some nasty incidents, before the security forces could suppress them.

ABBOT SMITH
Director
National Estimates

Franklin Roosevelt

FIFTH AVE AT 65TH STREET, NEW YORK, N.Y. 10017

Dear Mr. President:

Yesterday I talked in Paris with Secretary Rogers and "Bunker Intercepts" and here, according to all the information we have, we may have been responsible in stopping the traffic of Marines and display great in harming the economy of our sites on the Korea and Taiwan fronts and bad publicity for the United States.

I hope it will be possible for you, as our Ambassador has already noted, to the State Department to review that operation and to order its cancellation.

Totally unfair to ~~[illegible]~~ to ~~[illegible]~~ You I am never do it again. But in this case I am convinced you have the opportunity of doing something for what all Mexicans will be grateful. (They simply can not understand that two weeks after you met with our President, the most drastic, and for many unfriendly measure against Mexico was taken).

Respectfully Yours,
Antonio Carrillo Flores
Secretary for Foreign Relations of Mexico.

P.S. Secretary Rogers was extremely attentive and sympathetic. But naturally the authority is yours. AC

MEMORANDUM

71

THE WHITE HOUSE

WASHINGTON

~~SECRET~~

INFORMATION

Saturday - October 5, 1968

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Mexican Riots - Extent of Communist Involvement

You asked about the extent to which the Cuban Communists or other foreign groups were involved in the Mexican riots this week.

The CIA analysis attached (Tab A) concludes that the student demonstrations were sparked by domestic politics, not masterminded by Cubans or Soviets. Their primary role was restricted to supplying some money to student groups.

CIA believes the weapons employed by the students could have been obtained locally. Although they did not start the trouble, Mexican Communists, Trotskyists, and Castroites all capitalized on the disorders once they began and took active parts.

An FBI report (Tab B) asserts that a Trotskyist group initiated the sniper fire at the police and army from prepared positions in various apartment buildings, and they were responsible for touching off the bloodshed. This so-called "Olympic Brigade" reportedly obtained automatic weapons from Cuban and Guatemalan extremist organizations and plans acts of sabotage during the Olympic games.

Walt Rostow

P. S. Bruno Pagliai called when he was in Washington for the Bank and Fund meetings. He had talked with President Diaz Ordaz. Diaz Ordaz vows that he will establish law and order and see the Olympics through. Diaz Ordaz says that the riots were carefully planned. A good many people came into the country. The guns used were new and had their numbers filed off. The Castro and Chinese Communist groups were at the center of the effort. The Soviet Communists had to come along to avoid the charge of being chicken.

Attachments
Tab A - CIA Memorandum
Tab B - FBI Report

W.W.R.

SECRET [redacted]

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
5 October 1968

MEMORANDUM

SUBJECT: Addendum to "Mexican Student Crisis," 4 October 1968

SUMMARY

There is no hard evidence that either the Cuban or Soviet embassies in Mexico City masterminded the current disturbances despite repeated allegations to that effect by the Mexican Government. We have unconfirmed reports that they have given moral and possibly some financial assistance, however, and there is evidence that many known Mexican Communists have openly participated in the riots.

1. Despite the participation of many Communist groups in the disorders, [redacted] has no firm evidence that the Communists instigated the present crisis. As in other countries, the extremists have capitalized on the disorders and members of the Mexican Communist Party (PCM), the Communist Youth (JCM), the Communist-oriented National Democratic Students' Central (CNED), and the Trotskyist and Castroite groups have all participated in varying ways. 1.5(a)(4)(5)

2. The PCM has gone on record as endorsing the student demands, but party leaders have privately stated that none of their principal functionaries should become directly involved in the violence. Known Communist students are associated with the National Strike Council and other organizations that have arisen during the disturbances, as are Trotskyists and members of the other Communist groups. The JCM has also instructed representatives to state organizations to participate in any local student activities in support of the Mexico City protests.

SECRET [redacted] 1.5(a)(4)(5)

SECRET [redacted] 1.3(a)(4)(5)

[redacted] 1.3(a)(4)(5)

[redacted] 1.3(a)(4)

[redacted] 1.3(a)(4)(5)

6. The strongest circumstantial evidence that the students have received financial aid during the disturbances is the appearance of extensive ads in Mexico City dailies,

SECRET [redacted] 1.3(a)(4)(5)

SECRET [redacted]

1.3(a)(4)(5)

which would cost many thousands of dollars. Funds could easily come from domestic opponents of the Diaz Ordaz government, however, in view of the disgruntlement of some former officials in both party and government who have fallen from favor. The students similarly would have little difficulty in obtaining their weapons stocks from ample domestic sources.

[redacted]

1.3(a)(4

SECRET [redacted]

1.3(a)(4)(5)

MEMORANDUM FOR MR. BROMLEY SMITH
The White House

From Meredith the meeting

on of paragraph 8 of yesterday's

Mexican memo. [redacted]

6 October 1968

(DATE)

AUG 67 10 REPLACES FORM 10-101 WHICH MAY BE USED.

EO 12958
3.4(b)(1)>25Yrs
(S)

~~CONFIDENTIAL~~

712

12:47 PM 10-5-68 FJB

RECEIVED
WHCA

DECLASSIFIED
E.O. 12958, Sec. 3.6
NLJ 95-122 Appeal
By cb , NARA Date 8-22-96

PRIORITY
TO: THE PRESIDENT 01
TO: SECRETARY OF STATE 03
TO: DIRECTOR, CIA 01 1968 OCT 5 16 58
TO: DIRECTOR, DEFENSE INTELLIGENCE AGENCY 01
TO: DEPARTMENT OF THE ARMY 01
TO: DEPARTMENT OF THE AIR FORCE 01
TO: WHITE HOUSE SITUATION ROOM, ATT.: SECRET SERVICE (PID)
TO: ATTORNEY GENERAL (BY MESSENGER)
FROM: DIRECTOR, FBI

~~(C O N F I D E N T I A L)~~

PROCOMMUNIST STUDENT ACTIVITIES IN MEXICO.

ALL SOURCES USED HEREIN HAVE FURNISHED RELIABLE INFORMATION IN THE PAST.

ON OCTOBER FOUR, NINETEEN SIXTY EIGHT, THE FOLLOWING WAS OBTAINED FROM A SOURCE WHO IS ACTIVE IN TROTSKYIST AFFAIRS.

THE LIGA COMUNISTA ESPARTACO (LCE 7COMMUNIST SPARTACUS LEAGUE) AND OTHER GROUPS OF THE TROTSKYIST FOURTH INTERNATIONAL MET IN MEXICO CITY DURING THE PREVIOUS WEEK. DELEGATIONS FROM VARIOUS STATES WERE PRESENT. THEY FORMED A SINGLE JOINT SHOCK GROUP CALLED THE OLYMPIA BRIGADE WHICH MADE ITS FIRST APPEARANCE OCTOBER TWO, NINETEEN SIXTY EIGHT, AT THE PLAZA OF THREE CULTURES.

END PAGE ONE

PAGE TWO ~~(C O N F I D E N T I A L~~

THAT AFTERNOON MEMBERS OF THE OLYMPIA BRIGADE POSITIONED THEMSELVES AS SNIPERS IN APARTMENT BUILDINGS OVERLOOKING THE PLAZA. OTHERS WERE ON THE GROUND FLOOR OF THE CHIHUAHUA BUILDING UNDER THE SPEAKERS BALCONY WHICH THEY WERE TO DEFEND.

SOURCE SAID SNIPERS HAD EARLIER BEEN GIVEN INSTRUCTIONS TO SHOOT AND KILL GENERAL JOSE HERNANDEZ TOLEDO, IF OBSERVED. HE HAD COMMANDED THE MILITARY FORCES WHICH IN THE RECENT PAST HAVE OCCUPIED THE UNIVERSITIES OF SONORA AND MICHOACAN, THE NATIONAL UNIVERSITY AND VARIOUS SCHOOLS IN MEXICO CITY.

GENERAL HERNANDEZ TOLEDO APPEARED IN THE PLAZA TO ANNOUNCE TO THE STUDENTS THEY WOULD NOT BE ALLOWED TO MARCH FROM THE AREA. THE OLYMPIA BRIGADE OPENED FIRE ON THE GENERAL'S PARTY WOUNDING HIM AND THREE OTHER OFFICERS AND THEN FIRED INTO A GROUP OF SOLDIERS BEHIND THEM, KILLING AT LEAST ONE AND WOUNDING MANY OTHERS. UNFORTUNATELY, AT THE SAME TIME, POLICE ON THE THIRD FLOOR STARTED TO CARRY OUT ARRESTS OF THE NATIONAL STRIKE COUNCIL AND SINCE SOCRATES COMPOSTELEMUS WAS ARMED, THEY FIRED WARNING SHOTS TO DETER HIM FROM RESISTING. THE ARMY HEARD SHOTS ON THE THIRD FLOOR AND FIRED INTO IT. IN THE CONFUSION MANY LCE MEMBERS FLED HIGHER INTO THE CHIHUAHUA BUILDING AND WERE GIVEN REFUGE BY TENANTS.

END PAGE TWO

PAGE THREE ~~(C O N F I D E N T I A L)~~

SOURCE REPORTED SNIPERS WERE FIRING ON THE TROOPS FROM OTHER BUILDINGS FROM VARIOUS ANGLES.

THE LCE GROUP HID UNTIL THE FOLLOWING DAY AND LEFT THE CHIHUAHUA BUILDING IN PAIRS WITHOUT BEING ARRESTED. SOURCE LATER DETERMINED THE OLYMPIA BRIGADE LED STUDENTS WHO BURNED BUSES AND STREETCARS ON THE NIGHT OF OCTOBER TWO.

THE BRIGADE HAS PLANS TO COMMIT ACTS OF SABOTAGE DURING THE OLYMPIC GAMES. IT IS MADE UP OF EXTREME RADICAL TROTSKYISTS KNOWN ONLY TO EACH OTHER AND THE LEADERS OF THE TROTSKYIST GROUPS. THEY ARE SAID TO HAVE CONTACT WITH GUATEMALAN GUERRILLAS AND CUBAN TROTSKYISTS WHO ARE IN MEXICO ON A "SECRET MISSION." AUTOMATIC ARMS FOR TERRORIST ACTIVITY HAVE BEEN SUPPLIED BY THESE LATTER GROUPS.

A SECOND SOURCE HAS ADVISED THAT THE LCE IS ONE OF THE MOST IMPORTANT TROTSKYIST ORGANIZATIONS WHICH FOLLOWS THE PRO-CHINESE COMMUNIST LINE IN MEXICO.

THE SECOND SOURCE ADVISED THAT MEXICO CITY DETECTIVES WHO TOOK REFUGE BEHIND ARMORED CARS DURING THE FIRING, REPORTED THE SOLDIERS INSIDE WERE SMOKING MARIJUANA AND EMERGING LIKE CRAZY MEN AND FIRING WILDLY.

END PAGE THREE

PAGE FOUR ~~(C O N F I D E N T I A L)~~

A THIRD AND FOURTH SOURCE, BOTH STUDENT ACTIVISTS, ADVISED THEY WERE BRIEFLY HELD BY TROOPS AT THE PLAZA AND REPORTED THE SOLDIERS ACTED DRUGGED, WERE VERY VIOLENT AND WERE LOOTING STORES.

A FIFTH SOURCE WHO IS AN EXPERIENCED SENIOR POLICE OFFICER, REPORTS THE FIRST SOLDIERS TO ARRIVE AT THE PLAZA WERE NOT FIRING THEIR WEAPONS. WHEN GENERAL HERNANDEZ TOLEDO WAS WOUNDED, SOURRE OBSERVED PERSONS FIRING INTO THE PLAZA FROM SURROUNDING BUILDINGS, SOME WITH AUTOMATIC WEAPONS. HE OBSERVED PERSONS FALLING IN GROUPS OF FOUR OR FIVE AS THOUGH HIT BY AUTOMATIC WEAPONS FIRE. THE SOLDIERS NEAR HIM, AT THIS EARLY MOMENT, WERE FIRING INTO THE AIR OR INTO BUILDINGS FOLLOWING THE LEAD OF TRACER ROUNDS FROM ARMORED CARS PINPOINTING SNIPERS. SOURRE BELIEVES MOST EARLY CASUALTIES WERE CAUSED BY SNIPERS. WHEN THE FIRST VIOLENT CLASH ENDED, ABOUT FOUR ZERO TO FIVE ZERO BODIES WERE IN THE PLAZA. BODIES WERE STILL BEING REMOVED FROM BUILDINGS ON OCTOBER THREE. SOURCE ESTIMATED THE TOLL OF DEAD AND MORTALLY WOUNDED COULD APPROACH TWO ZERO ZERO.

GP 7 1

END

PLS HOLD FOR ACKS TKS

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~~CONFIDENTIAL~~

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~SECRET~~ October 9, 1968

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SANITIZED
E.O. 12958, Sec. 3.6
NLJ 95-189
By CG , NARA Date 3-3-97

MEMO FOR WALT ROSTOW

SUBJECT: Mexican Riots

Walt:

CIA went back [redacted] to try to get answers to the questions you raised in staff meeting. Their response is attached.

1.5(c)
3.4(b)(1)

I don't think there is enough new information in this to warrant sending it up to the President. However, State is trying to get some additional evaluation of the situation from the Embassy which we should have shortly, and CIA may also come through with more details.

SWLewis

Attachment

[redacted]

742

3.4(b)(

SUBJECT : Answers to Questions Raised by White House Concerning Student Disturbances in Mexico

1. The following is currently available information on the questions raised on 7 October:

A. Question: Mexican [redacted] students were using new rifles with numbers filed off supplied by "Chinese sources". Is there any verification?

3.4(b)(2)(

Answer: There is no verification to date that such rifles were being used. [redacted]

B. Question: Did or did not individuals from outside Mexico infiltrate the country just prior to the riots and take part? If so, where were they from and who did they represent?

Answer: The only confirmed information on individuals from outside Mexico who possibly might have been involved in the riots involved two French students, one Chilean, one Puerto Rican, and one American. The latter three were arrested on 26 July and were deported. The French students were not apprehended. It is not known whether these individuals represented themselves or international organizations. Although the Mexican press continually plays the theme of foreign involvement, no conclusive evidence to this effect has been presented to date.

C. Question: What faculties of the university were involved in the rioting and to what extent?

Answer: All faculties of the National Autonomous University had been involved to some extent. The National Strike Committee consisted of over 200 members representing the National Autonomous University, the

[redacted]

3.4(b)(

[redacted]

National Polytechnic Institute, the National Agricultural College, Teachers Colleges, Vocational and Preparatory Schools. At the National University the most active faculties at the beginning of the disturbances were those of Economics, Law, Philosophy, and Political Science. More recently the Science faculties and the Polytechnic schools have become more involved. Not to be excluded from involvement in student disturbances were professors who formed coordination committees of teachers representing most of the aforementioned schools and colleges.

D. Question: What organizations outside the academic field proper took part or furnished support in money or arms and how much support -- in arms and money?

Answer: [redacted] no conclusive information concerning support of arms to the students. The one unconfirmed report mentioned in the addendum to the paper on the Mexican student crisis is the only indication of appreciable amounts of financial support. [redacted] the Mexican Communist Party, the Mexican Communist Youth, the National Democratic Student Central, and the National Union of Mexican Women have given "moral" support to the student movement and have participated in the collection of funds. It is not possible to determine the amount of money collected by the students who have resorted to periodic collection campaigns throughout the city. [redacted] the Mexican [redacted] studied the cost of student trouble from 26 July to 26 September and found it to be over "4 million pesos" (320,000 U.S. dollars) for advertisements, signs, food, support, and so forth. 3.4(b)(1) 3.4(b)(1)

E. Question: Verify if possible the acts of the Olympia Brigade as reported by the Bureau.

Answer: [redacted] a small group of students at the National Autonomous University of Mexico advised [redacted] that the Trotskyists had formed a "Brigade" which was broken down very secretly into small compartmented cells of three to five students. Some students call this group the "Brigade Olympia". [redacted] the Brigade plans to dynamite electric transmission centers and 3.4(b)(1)

[redacted]

[redacted]

3.4(b)(1)

transformers at key places in Mexico City in order to interfere with Olympic events; dynamite certain bridges on the circumferential highways at times which would cause the greatest difficulties for Olympic events; seize some of the buses being used for transportation of Olympic athletes; and capture some famous athletes who are participating in the Olympics. [redacted]

3.4(b)1.

2. Additional information will be forwarded as it becomes available.

[redacted]

3.4(b)(1)

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THE WHITE HOUSE
WASHINGTON

~~Confidential~~

October 14, 1968

MEMO FOR WALT ROSTOW

SUBJECT: Mexico Riots

The attached cable from Mexico City contains a good analysis of the recent riots and assesses what there is to know about foreign influence.

The best evidence suggests violence was sparked by small well-organized Mexican extremist groups and that foreign influence was probably a minor factor.

SWLewis

Attachment

Mexico Embtel 7514, 10/12/68.

Department of State **TELEGRAM**

~~CONFIDENTIAL~~ 394

PAGE 01 MEXICO 07514 01 OF 02 120241Z

81
ACTION ARA 16

INFO CU 04,HEW 07,CIAE 00,DODE 00,GPM 04,H 02,INR 07,L 03,NSAE 00,

NSC 10,P 04,RSC 01,SP 02,SS 25,USIA 12,RSR 01,EUR 15,NIC

SIL 01,LAB 06,OPR 02,FBI 01,SSO 00,/124 W
********** 101805

P 120036Z OCT 68
FM AMEMBASSY MEXICO
TO SECSTATE WASHDC PRIORITY 7900

~~CONFIDENTIAL~~ SECTION 1 OF 2 MEXICO 7514.

1. QUESTION OF FOREIGN INFLUENCE ON STUDENT DISORDERS LIKE QUESTION OF STUDENT LEADERSHIP ITSELF DIFFICULT TO DETERMINE BECAUSE OF PROFUSION OF CURRENTS WITHIN STUDENT MOVEMENT, FLUIDITY OF LEADERSHIP AT DIFFERENT MOMENTS, HIGH DEGREE OF SPONTANEITY WHICH HAS CHARACTERIZED STUDENT ACTIONS ESPECIALLY FOLLOWING ARMY SEIZURE OF UNAM WHEN LEADERS SCATTERED AND POSSIBILITY ENHANCED FOR UNCOORDINATED ACTIONS ESPECIALLY BY EXTREMIST GROUPS.

1.3 (a)(5)

2. DIRECT INVOLVEMENT BY FOREIGNERS HAS BEEN ESSENTIALLY NEGLIGIBLE AND BY FOREIGN EMBASSIES HARD TO PROVE. [redacted] TOP OFFICIAL SECRETARIAT OF GOVERNMENT HAS STATED GOM HAS SOLID PROOF SOV AND CUBAN EMBASSIES HAVE HELPED STRIKERS. EMBASSY HAS NO SUCH PROOF AND DOES NOT KNOW NATURE OF GOM PROOF. THERE HAS BEEN CONSIDERABLE INVOLVEMENT BY GROUPS LINKED TO COMMUNIST COUNTRIES AND INDIVIDUALS WHO HAVE TRAVELED TO USSR OR CUBA AND WHO MAY THEREFORE BE VIEWED AS FOREIGN-SUPPORTED. THESE INDIVIDUALS CLEARLY HAD
STRONG INFLUENCE ON FORMULATION OF STUDENT DEMANDS WHICH CHANGED FROM INITIAL FOCUS ON AFTERMATH OF JULY 29 INCIDENT TO INCLUDE ISSUES SUCH AS RELEASE OF POLITICAL PRISIONERS AND DEROGATION OF ARTICLE 145 ON WHICH COMMUNISTS HAD TRIED UNSUCCESSFULLY FOR YEARS TO DRUM UP SUPPORT.

3. EXTENT OF INFLUENCE OF FOREIGN-SUPPORTED GROUPS IN ANY GIVEN TACTICAL
SITUATION MUCH LESS CLEAR CUT. HYPOTHESIS WHICH BEST FITS PRESENT

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

INFORMATION IS THAT AT LEAST ONE AND PERHAPS SEVERAL SMALL, TIGHTLY ORGANIZED AND DISCIPLINED EXTREMIST GROUPS HAVE OPERATED AT TIMES WITHIN AND AT TIMES IN THE SHADOW OF THE BROAD, MASSIVE STUDENT MOVEMENT, WHICH HAS, FOR MOST PART, BEEN MODERATE.

4. IN LINE WITH FOREGOING, DIAZ ORDAZ TOLD CONGRESSMAN SELDEN THAT ORIGINAL STUDENT AGITATION NOT COMMUNIST INSPIRED: HOWEVER, SOON AFTERWARDS MOSCOW-ORIENTED COMMUNISTS OBTAINED POSITION OF MAJOR IMPORTANCE IN LEADERSHIP OF MOVEMENT. SUBSEQUENTLY THIS GROUP DISPLACED BY EXTREMISTS OF MAO-CASTRO-TROTSKYITE ORIENTATION. INFLUENCE OF LATTER NOW BROKEN AND MOSCOW-ORIENTED GROUP HAS ONLY VERY SMALL INFLUENCE.

5. THERE THUS APPEARS TO HAVE BEEN THE OLD-LINE LEFT AND THE NEWER, EXTREME LEFT COMPETING WITH EACH OTHER AND WITH THE MODERATES FOR LEADERSHIP OF THE STRIKE MOVEMENT. (THERE MAY ALSO HAVE BEEN OTHER, AD HOC GROUPS REPRESENTING ALLEGED INTERESTS OF DISGRUNTLED MEXICAN POLITICOS.)

6. EMB BELIEVES THAT OLD-LINE COMMIE GROUP, WHOSE LEADERSHIP AND ORGANIZATION WELL KNOWN TO SECURITY FORCES, CAUSED GOVT LITTLE PROBLEM AND TO SOME EXTENT SUCCESS OF MORE EXTREME GROUPS IN DISPLACING THEM MAY HAVE BEEN FACILITATED BY GOVT PRESSURES ON OLD LINERS WHICH CAUSED THEM TO PULL BACK.

7. NEWER, MORE EXTREME GROUPS HAVE SHOWN ORGANIZATIONAL STRENGTH, DISCIPLINE AND RESOURCES WHICH SUGGEST THIS WAS NOT AD HOC DEVELOPMENT EMERGING FROM STUDENT AGITATION BUT RATHER ORGANIZATION ALREADY IN EXISTENCE AND WELL DEVELOPED. REPORTS THAT EXTREMIST STUDENT GROUP WOULD ATTEMPT DISRUPT OLYMPIC GAMES HAD CAUSED GOM SECURITY AGENTS CONCERN EVEN BEFORE STUDENT AGITATION BEGAN. EVIDENCE TENDS TO SHOW THAT WHEN GROUP BECAME ACTIVE IN STUDENT MOVEMENT GOVT HAD ONLY SUPERFICIALLY PENETRATED ORGANIZATION AND IDENTIFIED ITS LEADERS. REAL APPREHENSION OF GOVT WAS THAT THIS GROUP, EITHER THROUGH DIRECT TERRORIST ACTIVITIES OR THROUGH CAPABILITY TO INFLAME STUDENT MASSES, WOULD DISRUPT GAMES. PROBLEM OF GOVT WAS TO IDENTIFY AND DETAIN LEADERSHIP AND BREAK UP ORGANIZATION BEFORE GAMES AND TO DO THIS IF POSSIBLE IN WAY WHICH WOULD NOT INFURIATE MASS OF STUDENTS AND WOULD NOT CREATE ADVERSE PUBLIC ATMOSPHERE FOR GAMES.

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

8. AS DATE FOR GAMES APPROACHED, TWO LAST AIMS BECAME LESS IMPORTANT WHEN WEIGHED AGAINST IMPERATIVE NECESSITY BREAK TERRORIST ORGANIZATION AND SEIZE ITS LEADERSHIP. THUS A MAJOR REASON FOR SUDDEN OCCUPATION UNAM CAMPUS BY TROOPS WAS HOPE THT TERRORIST LEADERSHIP, WHICH HAD USED CAMPUS AS MEETING PLACE, WOULD BE ROUNDED UP. (IN FACT MOST HAD DEPARTED FROM CAMPUS SHORTLY BEFORE.) OCCUPATION ZACATENCO AND CASCO DE SANTO TOMAS CAMPUSES OF POLYTECHNIC INSTITUTE PROBABLY HAD SAME REASON: TO SEIZE EXTREMIST LEADERSHIP AND WEAPONS. IN EACH CASE TACTIC WAS COMPLETE ROUNDUP OF ALL PERSONS PRESENT, SUBSEQUENT SIFTING OF DETAINEES AND RELEASE THOSE NOT BELIEVED DIRECTLY INVOLVED IN VIOLENCE. SUBSEQUENT TACTIC OF GOVT OF PERMITTING STUDENT GATHERINGS FOR SEVERAL DAYS, THEN SUDDENLY MAKING NUMBEROUS DETENTIONS SEEMS TO HAVE BEEN DESIGNED FOR LIKE PURPOSE. AS GOVT ROUNDED UP INCREASING NUMBERS OF EXTREMIST LEADERS, ITS INFO RE ORGANIZATION AND REMAINING LEADERSHIP IMPROVED.

9. IT IS PROBABLY THAT GOVT PERMITTED STUDENTS TO ASSEMBLY ON OCT. 2 AT TLATELOLCO (IT IS ALWAYS EASIER TO PREVENT STUDENT GROUP FROM FORMING THAN TO BREAK IT UP AFTERWARDS) BECAUSE IT HAD REASON TO EXPECT THAT MANY OF EXTREMIST ELEMENTS AND LEADERSHIP WOULD BE PRESENT, AND IT SEEMS ABUNDANTLY CLEAR THAT PREPARATIONS HAD BEEN MADE
TO SEIZE AT LEAST THE LEADERSHIP. IT SEEMS LIKELY IN THE LIGHT OF PREVIOUS DISCUSSION THAT GOVT WOULD HAVE PREFERRED TO ACCOMPLISH THIS WITH MINIMUM VIOLENCE, ALTHOUGH THIS IS NOT CERTAIN, IN ANY CASE
FREEMAN

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ACTION ARA 16

INFO CU 04,HEW 07,CIAE 00,DODE 00,GPM 04,H 02,INR 07,L 03,NSAE 00,
NSC 10,P 04,RSC 01,SP 02,SS 25,USIA 12,RSR 01,EUR 15,NIC 01,
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IT WAS PREPARED TO USE FORCE IN WHATEVER DEGREE NECESSARY TO ACHIEVE THIS OBJECTIVE.

10. IT IS EQUALLY CLEAR THAT NUMEROUS WELL-ARMED EXTREMIST STUDENT ELEMENTS WERE CAREFULLY PLACED IN AT LEAST 3 OF THE BUILDINGS SURROUNDING THE PLAZA OF THE THREE CULTURES. AS TO SPECIFIC GROUPS, ONE CAN CONCLUDE A PRIORI THAT THEY WOULD INCLUDE TROTSKYITE TYPES IN ONE FORM OR ANOTHER. EMBASSY HAS NOW HEARD FOR SECOND TIME OF A BRIGADA OLIMPIA THOUGH NOT IN CONNECTION WITH OCT. 2. IT SEEMS UNLIKELY THAT DEPLOYMENT ARMED EXTREMISTS WAS AGREED POLICY OF ENTIRE STRIKE COUNCIL WHICH INDEED MAY NOT HAVE BEEN AWARE OF IT IN ADVANCE. EVIDENCE IS INCOMPLETE OR CONTRADICTORY AS TO WHETHER THIS DEPLOYMENT OF ARMED EXTREMISTS WAS FOR PURPOSE AMBUSHING ARMY AND THUS PROVOKING FIRE FIGHT IN PRESENCE FOREIGN PRESS (WHO THEY KNEW WOULD BE PRESENT) OR WHETHER IT WAS "DEFENSIVE". EMB INCLINED TO FORMER VIEW. WITH EVACUATON OF UNAM CAMPUS AND OTHER STEPS STEAM SEEMD AGAIN GOING OUT OF STUDENT; EXTREMISTS MAY HAVE THOUGHT TIME HAD ARRIVED FOR ALL OUT EFFORT. AS EMB HAS POINTED OUT PREVIOUSLY, EXTREMISTS HAVE HAD OPTION OF THWARTING PEACEFUL SOLUTION BY PROVOKING VIOLENCE.

11. REPORTS OF USUALLY RELIABLE SOURCES AND ON SPOT OBSERVERS VARY GREATLY AND ARE OFTEN FLATLY CONTRADICTORY AS TO WHO FIRED FIRST SHOTS. PREPONDERANCE EVIDENCE SEEMS TO BE FIRST SHOTS EITHER OCCURRED IN OR CAME FROM CHIHUAHUA APARTMENT HOUSE. WHETHER THEY WERE FIRED BY STUDENT EXTREMISTS OR PLAINCLOTHES SECURITY AGENTS IN BUILDING CONTINUES MUCH DISPUTED POINT. FACT THAT PARATROOP GENERAL

~~CONFIDENTIAL~~

JOSE HERNANDEZ TOLEDO WAS SHOT WHILE USING BULLHORN TO URGE CROWD TO DISPERSE PEACEFULLY SUGGESTS STRONGLY FIRST SHOTS DID NOT COME FROM ARMY. PERHAPS QUESTION WHO FIRED FIRST SHOT WILL NEVER BE KNOWN AND IS, IN ANY CASE, ACADEMIC.

12. QUETIONING OF LARGE NUMBER OF PERSONS (REPORTEDLY OVER 2000) DETAINED AT TLATELOLCO HAS TAKEN CONSIDERABLE TIME. GREAT MAJORITY HAVE BEEN RELEASED, BUT OPERATION NETTED A NUMBER OF EXTREMISTS AND THEIR LEADERS. GOVT APPEARS TO BELIEVE THAT RESULT HAS BEEN SUBSTANTIAL BREAKING UP OF TERRORIST ORGANIZATION. TECHNIQUE OF PUBLIC STATEMENTS BEFORE PRESS BY TERRORIST LEADERS HAS PROBABLY BEEN VERY EFFECTIVE IN CREATING FEAR, MUTUAL DISTRUST AND UNCERTAINTY AMONG STUDENTS IN GENERAL AS WELL AS REMAINING ELEMENTS OF TERRORIST GROUP.

13. WITH RESPECT TO PUBLIC STATEMENTS ABOUT FOREIGN CONSPIRACY, IMPORTANT TO NOTE USE OF FOREIGN SCAPEGOAT FREQUENT IN MEXICO AND IN THIS INSTANCE DESIGNED TO DISCREDIT STUDENT MOVEMENT AND PERHAPS TO SOME DEGREE TO DIVERT ATTENTION FROM DEEPER LOCAL ROOTS OF PROBLEM. GOVERNMENT HAS SEVERAL TIMES HINTED AT SOVIET AND/OR CUBAN INVOLVEMENT, WHILE SOME ELEMENTS ON LEFT HAVE BLAMED CIA OR FBI. CARDENAS STATEMENT IS NOT SPECIFIC, THOUGH GIVEN HIS BIASES, HE MAY HAVE US IN MIND. SOCRATES AMADOR CAMPOS LEMUS SHIFTED FOCUS FROM FOREIGN INVOLVEMENT TO POSSIBLE CUPABILITY OF DISAFFECTED LOCAL POLITICIANS, CONCEIVABLY WITH SO MANY FOREIGNERS IN TOWN FOR OLYMPICS, GOM DOES NOT WANT TO FOCUS ON FOREIGN ANGLE BUT AFTER OLYMPICS, ESPECIALLY IF STUDENT DISORDERS RECUR, LATTER THEME MAY REEMERGE.

14. DOCTOR'S STRIKE, WHICH IN FACT INVOLVED INTERNS IN ONLY ONE OR TWO HOSPITALS AND ACCORDING TO DIRECTORS THOSE INSTITUTIONS DID NOT INTERFERE WITH NORMAL OPERATIONS, WAS NEVER MATTER OF SERIOUS CONCERN AND, INSOFAR AS EMB AWARE, IS NOW OVER.

FREEMAN

~~CONFIDENTIAL~~

TASK FORCE REPORT:

NARCOTICS, MARIJUANA & DANGEROUS DRUGS

FINDINGS AND RECOMMENDATIONS

SPECIAL PRESIDENTIAL TASK FORCE

Relating to
Narcotics, Marijuana and Dangerous Drugs

NARCOTICS, MARIHUANA AND DANGEROUS DRUGS TASK FORCE

June 6, 1969

CONTENTS

June 6, 1969

The President
The White House
Washington, D. C. 20500

Dear Mr. President:

We submit herewith a report dated June 6, 1969, entitled "Narcotics, Marihuana and Dangerous Drugs Task Force." As you can see, it is the result of the joint efforts over an extended period of time of many persons from not only the Treasury Department and the Justice Department, but also from the Departments of Defense, Health, Education and Welfare, Agriculture, Labor, Commerce and Transportation. The State Department was represented in an advisory capacity. A representative of the Interstate Commerce Commission also participated and a staff assistant to Mr. Ehrlichman was present as an observer at all meetings of the full Task Force.

This report is a direct result of your pledge to the American people on September 16, 1968, at Anaheim, California. At that time you stated that you intended to do several things. Among them was your intention to "move against the source of drugs" and to "accelerate the development of tools and weapons to detect narcotics in transit".

In the immediate future, the combined enforcement resources of the United States Government will be utilized in order to make a concerted frontal attack on the illegal importation into and the subsequent illegal sale and use of marihuana, narcotics and dangerous drugs in the United States.

We will keep you advised on a continuing basis of specific programs that will be initiated to implement the recommendations of the report. We will also advise you of the results of such programs.

In this regard, you should also be advised that representatives of our respective departments will be meeting in Mexico City on June 9th, 10th and 11th, with officials of the Government of Mexico to consider all aspects of the illegal traffic between our two countries in narcotics, marihuana, stimulants and hallucinogenic drugs.

The Department of State, which will assume the major burden of obtaining Mexican cooperation on a continuing basis, will participate in these meetings and will coordinate our follow-through efforts with the Mexican authorities. Under Secretary Richardson has assured us of that Department's whole-hearted support for the report.

Because the report concerns itself not only with recommendations as to enforcement matters but also with the dangers and effects which result from the use of marihuana in particular, representatives from the Department of Health, Education and Welfare made valuable contributions to the efforts of the Task Force. We have been authorized by Secretary Finch to inform you that he fully concurs in the report, its conclusions, and recommendations.

Respectfully,

/s/David M. Kennedy
Secretary of the Treasury

/s/John N. Mitchell
Attorney General

INTRODUCTION

One of the most serious problems facing the United States today is the marked increase in the use of narcotics, marihuana and other hallucenogenic or "mind-changing" drugs. This problem is especially prevalent among the youth of our nation, who have experimented with these drugs.

Most of the marihuana in the United States today comes from Mexico and is smuggled across the border by various means. Mexico has become by far our largest supplier of marihuana and it is also the source of a substantial amount of other drugs. As the primary sources of supply, free-lance smugglers and organized traffickers are largely responsible for the marihuana and drug abuse problem.

In an effort to find a solution to this problem, the Attorney General requested the formation of an inter-departmental Task Force to conduct a comprehensive study of marihuana with specific emphasis on the Mexican border problem. The objective of the Task Force has been to formulate a plan for positive and effective action to control the illicit trafficking of drugs across the Mexican border. The Task Force has also reviewed the best scientific information now available on the health dangers inherent in the use of marihuana and has endeavored to communicate unequivocally in this report the facts concerning the social implications of marihuana use.

It was considered advisable to involve in this study all Government agencies dealing with one or more phases of the problem.

The following individuals represented their departments and agencies on the Task Force and actively participated in its deliberations:

Co-Chairman	Mr. Richard G. Kleindienst Deputy Attorney General Department of Justice
Co-Chairman	Mr. Eugene T. Rossides Assistant Secretary Department of the Treasury

Executive Secretary:	Mr. R. Richards Rolapp Special Assistant to the Deputy Attorney General Department of Justice
Member:	Mr. John J. Caulfield Staff Assistant to Counsel The White House
Member:	Mr. Paul Eggers General Counsel Department of the Treasury
Member:	Mr. G. Gordon Liddy Special Assistant to the Secretary Department of the Treasury
Member:	Mr. Lester D. Johnson Commissioner - Bureau of Customs Department of the Treasury
Member:	Mr. John E. Ingersoll Director, Bureau of Narcotics & Dangerous Drugs Department of Justice
Member:	Mr. George H. Revercomb Associate Deputy Attorney General Department of Justice
Member:	Mr. Cartha D. DeLoach Assistant to the Director Federal Bureau of Investigation Department of Justice
Member:	Mr. Raymond F. Farrell Commissioner, Immigration & Naturalization Service Department of Justice
Member:	Mr. William E. Ryan Chief, Narcotics & Dangerous Drugs Section Criminal Division Department of Justice

Member:	Mr. Henry E. Petersen Acting Deputy Assistant Attorney General Criminal Division Department of Justice
Member:	Mr. Robert E. Jordan, III Chief Counsel Department of the Army
Member:	Mr. Frank A. Bartimo Assistant General Counsel Manpower and Reserve Affairs Department of Defense
Member:	Dr. Theodore C. Byerly Assistant Director, Science & Education Department of Agriculture
Member:	Mr. Rocco C. Siciliano Under Secretary Department of Commerce
Member:	Mr. John Gentry Executive Assistant to the Under Secretary Department of Labor
Member:	Dr. Mark Novitch Special Assistant for Pharmaceutical Affairs Office of the Secretary Department of Health, Education and Welfare
Member:	Dr. Stanley F. Yolles Director, National Institute of Mental Health Department of Health, Education and Welfare
Member:	Mr. James M. Yohe Deputy Director of Compliance and Security Federal Aviation Agency Department of Transportation

Member: Commander Frederick J. Lessing
U. S. Coast Guard
Department of Transportation

Member: Mr. Fritz Kahn
Deputy General Counsel
Interstate Commerce Commission

The Task Force convened its initital meeting on March 26, 1969. In that first meeting the general scope of the proposed study was discussed, objectives formulated and Subcommittees formed for more specific and detailed research on the various aspects of the overall study. The Subcommittees were:

Health Subcommittee -- Dr. Stanley F. Yolles, Director of the National Institute of Mental Health, Chairman.

Resources Subcommittee -- Mr. Cartha D. DeLoach, Assistant to the Director of the Federal Bureau of Investigation, Chairman.

Enforcement Subcommittee -- Mr. John E. Ingersoll, Director of the Bureau of Narcotics and Dangerous Drugs, Chairman.

Each Subcommittee was given direction on the scope and nature of its study and assigned certain questions by the Task Force. The Task Force requested the Health Subcommittee to prepare a comprehensive report on the medical implications of marihuana use. The Task Force was particularly interested in learning by whom and to what extent marihuana is used and the health dangers involved, if any. This Subcommittee was also requested to report on present efforts to educate the public about drug abuse and to recommend particular areas where educational efforts can be increased and concentrated.

The Resources Subcommittee was asked to survey and report on the manpower and facilities available to aid in the control of trafficking in marihuana. This Subcommittee undertook an analysis and comparison of the resource needs of existing law enforcement agencies to enable such agencies to participate effectively in a long-range program for marihuana control.

The Enforcement Subcommittee developed a recommended plan of action, for immediate and long-term implementation, designed to have a significant impact on unlawful marihuana trafficking across the Mexican border. Its study included an examination of existing programs of law enforcement agencies with a view to the improvement of coordination and efficiency. The Enforcement Subcommittee defined the various aspects of the enforcement problem, reached certain conclusions and made appropriate recommendations for implementation.

These Subcommittees devoted considerable time to careful study of the assigned subject matter. As an example of the effort expended, the Enforcement Subcommittee devoted over 25 hours for discussion meetings within a three-week period of time.

The Task Force considered the Subcommittee reports during its second meeting on April 28, 1969. The reports were discussed in detail and Task Force members made suggestions for changes and additions. The final report in draft was submitted to each member of the Task Force for discussion and approval at a concluding meeting on May 19, 1969.

This final comprehensive report is a product of the extensive research and study by the Task Force of an extremely complex problem.

III. PREVENTION AND CONTROL OF DRUG SMUGGLING AT THE MEXICAN BORDER

BORDER CROSSING RESTRICTIONS

The suppression of drug smuggling along the border is directly related to the physical and regulatory control of individuals and conveyances. The huge volume of vehicle and pedestrian traffic crossing at border points creates serious enforcement problems for Customs officials. The limited manpower available and the enormous volume of traffic make it impossible to inspect adequately each vehicle to determine if it is transporting contraband. Inspectors detain and carefully search only those cars or individuals whose likelihood of possessing contraband merits secondary inspection. Since it is impossible under this method to detect all persons who may have contraband items, many smugglers successfully traverse the border. Any information that could lead to some common denominator as to the kind of person who smuggles contraband articles, should be analyzed. This would aid border inspectors in their discretionary authority to search persons and vehicles.

The Task Force recommends:

> Case histories of past and future smuggling operations should be analyzed to determine identifiable characteristic patterns of smugglers to facilitate primary inspection at the border.

One way to decrease the flow of vehicular traffic would be to encourage those traveling to Mexican border cities for brief visits to leave their cars and enter Mexico by foot. This procedure could be encouraged by providing additional parking facilities at border crossing points. Because of the advantages of parking a vehicle on the U. S. side, many temporary visitors would probably desire to use such parking facilities.

The Task Force recommends:

> The United States Government should acquire property at border crossings for the construction of parking facilities.

The Immigration and Naturalization Service has stressed the effectiveness of fences currently installed near authorized points and is convinced that their extension would enhance efforts to restrict unauthorized crossings.

The Task Force recommends:

> Existing fences along the United States-Mexican Border should be extended after careful determinations are made of those areas where such extensions are most needed and would have the most beneficial effect.

The lack of sufficient easements at the border, particularly at metropolitan points, compounds the problem of choking off traffic at unauthorized entry points. In such areas, an easement of at least thirty feet would be necessary to effectively control these areas.

The Task Force recommends:

> Easements up to thirty feet wide at metropolitan border points should be granted to the United States Government to enhance its efforts to restrict unauthorized crossings.

The large number of military personnel in San Diego produces an economic boost for Tijuana. It also creates many problems with respect to the safety and welfare of these men. Although a relatively small percentage of the military element is involved in the smuggling of narcotics, the social and commercial atmosphere produced by the drug trade in Tijuana greatly affects their activities. Should Tijuana be placed off limits to all military personnel, the effect on the local economy would be substantial. Such action could be considered as an inducement for better drug control along the border.

The Task Force recommends:

> A study should be made by the Department of Defense to consider the feasibility of imposing an off-limits restriction on military personnel at Tijuana.

Aliens are inadmissible to the United States under the Immigration and Nationality Act if they are narcotic drug addicts or if they have been convicted of a violation or conspiracy to violate any law or regulation relating to the

illicit possession of, or traffic in, narcotic drugs or marihuana. They are also inadmissible if the Immigration Officer knows or has reason to believe such aliens have been illicit traffickers in narcotic drugs. Furthermore, alien narcotic drug addicts convicted of offenses involving narcotic drugs or marihuana trafficking or possession, are subject to deportation. There is a program whereby the Bureau of Narcotics and Dangerous Drugs and the Bureau of Customs furnish the Immigration and Naturalization Service information concerning aliens who are arrested for criminal offenses involving narcotic drugs or marihuana.

DRUG DETECTION METHODS AND DEVICES

The Task Force discussed many technical devices presently available and in the experimental state that would aid in the detection of drugs at the border.

Because further study is necessary of the many scientific considerations that are necessary in determining the feasibility of a potential border detection device, a committee should be established to review the devices which may become available for future utilization. The White House Office of Science and Technology should be consulted for assistance in this endeavor.

Dogs, German shepherds particularly, have been trained to detect marihuana, and one such animal is being used by Customs at San Ysidro, California. It has been under test for approximately one year, not only at San Ysidro border points, but also at air cargo sections, mail sections and at other points along the border. Results have not been conclusive but tend to indicate that the dog requires considerable time, manpower and effort to sustain. The dog has assisted in the detection of some marihuana and definitely has a psychological effect on smugglers amounting to a limited deterrent. However, the limited work time of the dog is approximately four hours per day. It requires a trainer-handler who might otherwise be engaged in regular searching activities.

The Army has trained a number of dogs for these purposes. However, there is a problem of Army involvement on the Mexican border because of posse comitatus statutes.

There are numerous perimeter detection devices that could be utilized to cover the border area These would be used

primarily by the Border Patrol to cover border areas outside of designated crossing points. The Border Patrol is presently using a sensor device, which when activated, indicates to a centralized unit that an object has crossed the border at the point. Regardless of what devices are implemented, there must be sufficient manpower to back them up. The intrusion device presently used at the border enables the Border Patrol to detect more intruders than could possibly be done with the human eye at night, but its effectiveness in stopping intruders can only be measured in terms of available personnel to follow up each border-crossing detection.

The Task Force recommends:

> A committee should be established to study existing means of detection to evaluate their relative effectiveness. The Office of Science and Technology should participate in this study and render technical advice and assistance to the committee.
>
> The United States Government should obtain perimeter detection devices that are economically feasible and practical for use on the border.

BORDER SURVEILLANCE OF AIRCRAFT AND VESSELS

Based on reports submitted to the Task Force, it would appear the use of aircraft in the smuggling of drugs from Mexico is on the increase and it poses a problem requiring more attention. Air smuggling usually involves small rented or leased planes which proceed to obscure airports or makeshift landing fields in Mexico. Upon returning to the United States they either discard their contraband by air drops at secluded locations or they land at small private fields or on roads where their presence is unlikely to be observed. Present efforts to detect these illegal flights must be considered inadequate.

The Immigration and Naturalization Service currently employs 20 planes along the Mexican border. They are primarily used for observation purposes and are not considered to have pursuit capability. In addition, they maintain an Air Intelligence Center at Yuma, Arizona, where data on 73,000 private aircraft and pilots, including pilots suspected of alien smuggling, is catalogued.

The Bureau of Customs has only one aircraft at the present time. It has pursuit capability and is used primarily in the investigation of smuggling at the Mexican border.

The pilots of these government planes have gathered, in the normal course of their contact within the flying fraternity, considerable information of value relating to smuggling activity. Wider dissemination and exchange of such intelligence is clearly desirable.

In examining the role of the Federal Aviation Administration in relation to illicit flights and the licensing of pilots, it is apparent that existing regulations and sanctions should be reviewed at an early date. For example, at the present time, private pilots of non-commercial aircraft are not required to file a flight plan on a non-instrument flight prior to departure for Mexico. Precedence exists for the promulgation of such requirements. Conviction for smuggling or other felonies is not grounds for the revocation of an airman's license. Only the airman's skill and physical fitness is an issue in such action.

There is some recent evidence to indicate that small pleasure boats are sometimes used in drug smuggling. Smuggling by boat is potentially a very serious problem. It represents a means of smuggling that is very difficult to control. Effective surveillance of the thousands of pleasure crafts operating in the waters off southern California and in the Gulf of Mexico would represent a Herculean task and would not, at this time, justify the expenditure of manpower and equipment necessary to implement a meaningful program. Better coverage might be achieved at various Mexican ports of call and investigative procedures relating to small vessels should concentrate on gathering intelligence on their illegal use.

The Task Force recommends:

> FAA regulations should be amended to require the filing of a flight plan prior to departure of all aircraft on international flights between Mexico and the United States.
>
> FAA statutes and regulations should be revised to permit license revocation in the case of pilots convicted of smuggling, or possession of contraband drugs.

Existing radar facilities along the Mexican border should be expanded and improved to conduct greater surveillance of low altitude aircraft and canyon air corridors.

Pursuit-type aircraft should be utilized on an increased basis to combat smuggling by air.

UTILIZATION OF ENFORCEMENT PERSONNEL

The Bureau of Customs, the Bureau of Narcotics and Dangerous Drugs, and the Immigration and Naturalization Service need greatly increased manpower to carry out the duties and responsibilities of their respective agencies. Should a manpower increase be granted, the agencies would utilize these additional personnel as follows:

1. Customs would significantly increase its agent personnel, a substantial portion of whom would be assigned to augment the anti-smuggling drive by increasing information gathering facilities and emphasizing smuggling conspiracy investigations.

2. The Border Patrol would utilize new personnel at border areas other than designated crossing points. This would augment the Border Patrol's current effort to make it more difficult to avoid the ports of entry and to discourage potential smugglers from using unauthorized entry areas.

3. The Bureau of Narcotics and Dangerous Drugs would utilize its additional manpower to develop intelligence data, form specialized mobile units, and expand undercover operations and conspiracy-type investigations.

VI. ROLE AND RESPONSIBILITY OF STATE DEPARTMENT IN SECURING MEXICAN COOPERATION

The Department of State is the primary representative for communicating to foreign governments the vital interests of the United States and for doing everything necessary to advance those interests through diplomacy. The consumption in the United States of drugs and narcotics produced abroad and illegally imported into this country has reached such proportion as to be in the highest rank of those matters affecting the vital interests of the nation.

Accordingly, the Department of State, in its dealings with the highest officials of Mexico and in the setting of agenda therefore, should give no subject higher priority or greater emphasis than the desire of the United States to realize an eradication of the production and refinement in Mexico of opium poppies and marihuana in violation of Mexican laws. The basic responsibility for effecting such control lies with the Government of Mexico and its law enforcement agencies. Nothing should be done which would weaken or shift that burden of responsibility. Only a massive, continuous effort, directed by the highest officials of Mexico, will significantly curtail the production and refinement of marihuana and other dangerous drugs.

The Task Force recommends:

> The Department of State must devote its efforts to persuading Mexico to place a program for eradication and control of marihuana and dangerous drugs among the highest of its national priorities.
>
> The United States Ambassador in Mexico should have this problem on his highest priority list on a continuing basis.

2099

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

JUNE 18, 1969

FOR THE PRESIDENT

Herewith is a report of your marijuana and dangerous drugs task force headed by Dick Kleindienst.

We have prepared a brief synopsis of the report which is attached to its cover.

The task force recommends that the Mexican government be forced into a program of defoliation of the marijuana plants (using borrowed or leased equipment from the United States) by commencing a campaign of strict enforcement and customs inspection at the border including control of small plane flights, etc.

JOHN D. EHRLICHMAN

Attachment

THE WHITE HOUSE

WASHINGTON

June 27, 1969

MEMORANDUM FOR

Honorable William P. Rogers
Honorable David M. Kennedy
Honorable Melvin R. Laird
Honorable John N. Mitchell
Honorable Clifford M. Hardin
Honorable Maurice H. Stans
Honorable Robert H. Finch
Honorable John A. Volpe
Honorable Robert Kunzig

RE: "Action Task Force"
Narcotics, Marihuana and Dangerous Drugs

On June 3, 1969, Secretary Kennedy and Attorney General Mitchell submitted to me an inter-departmental task force report dealing primarily with narcotics and marihuana, their traffic between Mexico and the United States and their sale and consumption in the United States. Some 23 persons representing ten Departments and agencies of the Government worked several months on the report. I concur in the basic conclusions and in the essential recommendations of the report.

In order to implement many, if not all, of the essential recommendations of the report as expeditiously as possible, I have this date asked the Deputy Attorney General to organize and place into immediate operation an "Action Task Force". This task force will proceed at once upon the following general guidelines:

1. In concultation with the respective Cabinet Officer or Agency head, and the Deputy Attorney General, there will be immediately appointed one person to serve on the task force from the following Departments or divisions thereof:

   a) Customs
   b) Defense
   c) BNDD
   d) Criminal Division - Justice
   e) FBI
   f) Immigration
   g) Transportation

2. The Ambassador to Mexico shall be kept advised of all programs of the task force by the Deputy Attorney General.

3. The task force shall bring about and put into action immediate steps calculated to make a frontal attack on the narcotic, marihuana and dangerous drug traffic across the Mexican border.

4. Specific proposals of the task force shall be submitted to the Attorney General in advance and prior to their effectuation.

5. I hereby designate John Ehrlichman, Counsel to the President, with the authority and responsibility to either consider and resolve any problems which might arise in connection herewith or to refer the same to me for disposition.

6. The Deputy Attorney General shall submit interim written reports to the Attorney General and to the Counsel to the President, and, in addition, shall prepare a full report at the end of each three-month period following July 1, 1969, to the President and the Attorney General.

7. The work of the task force shall be confidential and any and all publicity with respect to its work and accomplishments shall be released only by the White House.

The work of this task force is government-wide. Because of the alarming increase during the past three years in the consumption of marihuana in particular by our Nation's youth, the task force and its work must be given high priority. I request that each Cabinet Officer and Agency head give his Department's or Agency's unqualified support to the task force in terms of cooperation, facilities, resources and personnel wherever and however possible.

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Department of State **TELEGRAM**

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LIMDIS

REF: MEXICO 4015

1. THROUGH OVERSIGHT, I NEGLECTE TO REPORT THAT DURING MY CONVERSATION WITH PRESIDENT DIAZ ORDAZ YESTERDAY, I REPORTED THAT HIGHEST LEVEL OF US GOVERNEMENT WAS DEEPLY CONCERNED ABOUT PROBLEMS OF NARCOTICS TRAFFIC ENTRY INTO UNITED STATES FROM MEXICO. I MENTIONED BRIEFINGS AT HIGH LEVELS IN WASHINGTON ON THIS SUBJECT.

2. DIAZ ORDAZ REPLIED THAT MEXICO WAS ALSO VERY MUCH PREOCCUPIED WITH THIS QUESTION AND WAS ALREADY CONTRIBUTING TO SURVEILLANCE ACTIVITIES AT A COST NOT ONLY OF MONEY AND EFFORT BUT OF LIVES OF CONTROL AGENTS WHO WERE SOMETIMES KILLED IN THE LINE OF DUTY. PRESIDENT OF MEXICO ADDED I COULD ASSURE ALL OF THOSE INTERESTED IN WASHINGTON OF HIS OWN PERSONAL ATTENTION TO THIS MATTER. HE THANKED ME FOR INFORMING HIM OF OUR OWN PROFOUND WORRY AT PRESENT SITUATION. HE CONCLUDED HE WOULD BE GLAD TO HAVE MEXICAN DELEGATION CONTINUE TO DISCUSS THIS SUBJECT AT HIGH LEVELS WITH US.
MCBRIDE

Mexico 4038
7/23/69

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CONFIDENTIAL

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

SECRET

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger HK

SUBJECT: Your Meeting with Mexican President Gustavo Diaz Ordaz, September 8

You are scheduled to participate with President Diaz Ordaz in a ceremony dedicating the Amistad (Friendship) Dam at 1:35 p.m. September 8, when you will be returning to Washington from San Clemente. Amistad Dam, which is located on the Rio Grande 12 miles from Del Rio, Texas, was constructed jointly by Mexico and the United States under the auspices of the US-Mexico International Boundary and Water Commission.

You and President Diaz Ordaz are each scheduled to make brief (6-10 minutes) addresses at the dam site during the dedication ceremony. Following the ceremony (which will last about 50 minutes), President Diaz Ordaz will host a luncheon for approximately 110 guests at a building on the Mexican side of the border. (President Johnson hosted at the last meeting in El Paso in December, 1968.) After the luncheon you are scheduled to meet privately for about 45 minutes with President Diaz Ordaz in another room. President Diaz Ordaz does not speak English. He specifically requested that the State Department provide its interpreter, Donald Barnes, whom he knows from previous meetings.

Mexican Foreign Minister Carrillo Flores, Secretary Rogers, and other advisers will meet simultaneously in an adjacent room and will be available should you wish them to join you later. (The ladies will remain in the luncheon room for a musical program.)

Following your private conversation, you will rejoin the guests in the dining room. You may wish to suggest that you and President Diaz Ordaz offer brief farewell remarks.

SECRET

President Diaz Ordaz will arrive for the meeting at the airfield in Ciudad Acuna, across the river from Del Rio. He will motor to the dam site and meet you there, where appropriate honors will be rendered in front of the assembled crowd. Because of his recent eye operation, President Diaz Ordaz cannot travel by helicopter; therefore, he will depart the dam by car separately after your private meeting. A schedule of the entire meeting and a detailed scenario is at Enclosure 6.

The temperature is likely to be quite high during the open-air ceremony. However, the luncheon and private meeting will be held in an air-conditioned building.

Talking Points on the subjects likely to arise during your conversation with President Diaz Ordaz and Background Papers on these subjects are at Enclosure 1. A memorandum from Secretary Rogers on the background and objectives of the meeting is at Enclosure 2. A copy of Governor Rockefeller's memorandum to you summarizing his conversation with President Diaz Ordaz in Mexico during his visit there in May is attached for your background information at Enclosure 3.

Talking Points for your brief address at the dedication ceremony, your toast at the luncheon and a possible farewell statement are at Enclosure 4. Additional background information and biographic material are at Enclosures 5 and 7.

The meeting at Amistad Dam is important because it will demonstrate the continuation of the close and constructive relations which exist between the United States and Mexico. It will give you an opportunity to establish your personal interest in maintaining a special relationship with the Mexican President.

I believe it will also be a fitting occasion to begin, in your public remarks, to affirm your recognition of the special Western Hemisphere relationship (as you indicated in the recent NSC discussion on Latin America) as a concept which will underlie your new Latin American policies.

The Latins understand that your basic policy decisions will be taken after you have reviewed the Rockefeller Report, but they are very anxious for reassuring signals that they are not forgotten

among your other priority concerns. The "special relationship" theme will be reassuring to them, but will not foreclose any specific policy or program options. It also ties in nicely to the Mexican meeting, since Mexico can be cited as a prime example of the "special relationship."

President Diaz Ordaz attaches great importance to his meeting with you. He is in the fifth year of a six-year term of office (ineligible for re-election) and he is particularly proud of having maintained cordial relations with the United States without compromising Mexico's basic foreign policy tenet of strict independence. Diaz Ordaz will be interested in establishing a personal rapport with you and demonstrating his rapport to the Mexican people. We have no major bilateral problems outstanding with Mexico, and we anticipate that he will raise few bilateral issues at your first meeting.

The main subjects President Diaz Ordaz may wish to raise with you are:

1. US-Mexico Trade Relations: Diaz Ordaz may express concern about the growing protectionist feeling in the US and measures which restrict importation of commodities important to Mexico (he emphasized this point to Governor Rockefeller).

2. Colorado River Water Salinity: Diaz Ordaz may indicate that he is under domestic pressure to take the matter of Colorado River salinity to the International Court of Justice, but that he intends to continue working for a practical solution along the lines of the 1965 agreement.

You may wish to raise the following points with Diaz Ordaz:

1. Narcotics: It would be useful for you to inform President Diaz Ordaz of our concern and general intentions regarding the narcotics problem and to reassure him that we will consult with Mexico before firm decisions are taken in matters which affect Mexico.

2. Settlement of Remaining Territorial Issues: You may want to indicate your support for the efforts of the IBWC Commissioners' efforts to find cooperative solutions to the minor territorial problems remaining between our two countries.

3. US-Latin American Relations: You may wish to indicate the administration is giving active consideration to Governor Rockefeller's Report, note the importance you attach to the special Western Hemisphere relationship, and ask Diaz Ordaz for his views on Latin America-United States relations.

4. Your Recent World Trip: To convey the impression you recognize Mexico's global role, you may want to give President Diaz Ordaz a brief account of your recent world trip and of the US approach to major world problems.

President Diaz Ordaz has been a moderate and effective leader of Mexico. However, there are indications that he has begun to suffer somewhat from a "lameduck" syndrome. A lawyer, scholar, and politician, Diaz Ordaz is a serious yet cordial man of genuinely simple and conservative tastes. He regards his personal relationship with the American President as a matter of great personal satisfaction and is delighted by your decision to meet with him at Amistad Dam. He will do everything possible to make the visit pleasant, cordial and non-controversial.

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INDEX (contd)

TALKING POINTS FOR YOUR MEETING WITH PRESIDENT DIAZ ORDAZ OF MEXICO
September 8, 1969

SUMMARY

Points to Emphasize

-- The importance you attach to continuing cooperative and cordial relations and mutual respect which exist between Mexico and the United States.

-- Recognition of Mexico's role in the hemisphere and international affairs.

-- Your desire to maintain a close personal relationship with the Mexican President and to consult with him on matters of mutual interest.

-- Your recognition of the special Western Hemisphere relationship, which underlies your desire to improve the effectiveness of our policies and programs in Latin America.

You may wish to seek Diaz Ordaz' views on

-- The state of United States-Latin American relations.

-- How the US can establish the kind of constructive relationship it has with Mexico throughout the hemisphere.

For openers, you may wish to

-- Recall your interesting visits to Mexico in 1952, 1955, and 1967.

-- Stress your hope that you can continue the tradition of maintaining a close personal relationship between the US and Mexican Presidents.

-- Express appreciation for the warm reception accorded Governor Rockefeller, and more recently Ambassador McBride.

-- Extend best wishes on the forthcoming marriage (September 10) of President Diaz Ordaz' son.

-- Congratulate him on an effective administration which has maintained Mexico's outstanding economic progress.

-- Express hope that he has fully recovered from his recent eye operation.

Topics Diaz Ordaz May Raise

1. US-Mexican Relations

Diaz Ordaz may wish to comment, as he did to Governor Rockefeller, on the state of US-Mexican Relations. He will probably say:

-- Mexico's foreign policy derives from its sovereign independence and its own personality.

-- However, the United States can count on Mexico's strong friendship when it is faced with any major problem or military danger.

-- Our bilateral relations are excellent; all major differences between our two countries have been cleared up.

-- He hopes to maintain close personal contact with you.

You may wish to say

-- You value our cordial relations with Mexico as an essential element of our foreign policy.

-- The excellent relations between our countries rest on mutual respect for each other's sovereignty, as well as on mutual interests.

-- You share President Diaz Ordaz' desire to maintain close personal relations, as your predecessors did.

-- You intend to consult with him from time to time on matters of mutual interest.

-- He may note that the US reaction is unfortunately being interpreted in some quarters as a sign of a cooling in US-Mexican relations.

You may wish to say

-- Our reservation relates solely to our concern that Mexico's claim could be used as a precedent for closing international waters elsewhere in which we have strong security and other interests.

-- Our response should not be considered in the context of our bilateral relations, but rather as a matter of principle in the context of our global interests.

8. US-Mexico Border Development Commission (CODAF) (Background Paper at Tab G)

Diaz Ordaz may ask for your judgment of the work of the Border Development Commission. He may express concern over some border issues, such as sales by duty free stores along the border, US union pressures against entry of Mexican laborers ("green card" holders) into the United States, and establishment of US border industries in Mexico.

You may wish to say

-- CODAF has done some useful work in improving living conditions along the border.

-- You have full confidence that the new Chairman of the US Section, Assistant Secretary Meyer and the new Executive Director, Antonio Rodriguez, will help the Commission to achieve its potential for dealing with border problems.

POINTS YOU MAY WISH TO RAISE

1. The Narcotics Problem (Background Paper at Tab H)

A major US enforcement effort in this field will get under way shortly. This will involve tightening up controls along the Mexican border, where a large percentage of narcotics traffic passes. We

have held consultations with the Mexican Government, but an unfortunate slip-up last week by the Navy, which announced that it was declaring Tiajuana off limits to all military personnel because of exposure to narcotics, ruffled Mexican sensitivities. Ambassador McBride has explained to the Mexican Government that the Navy announcement was an error and that no firm decisions have been taken.

You may wish to say

-- We are very much concerned about the problem of drug abuse in the United States.

-- We appreciate Mexico's continuing cooperation in trying to meet this problem; you understand that at the meeting of enforcement officials in Mexico last June, both sides agreed on the need for stepped up enforcement activities.

-- We are considering plans for major enforcement efforts.

-- Ambassador McBride will be instructed to consult with Foreign Secretary Carrillo Flores in advance of any effort, after firm decisions are taken.

-- You hope that our enforcement officials can continue to work together closely. We would be happy to host another meeting soon in Washington.

2. Settlement of Remaining Territorial Issues (Background Paper Tab I)

There are several minor territorial questions pending with Mexico. The most important of these relates to the Ojinaga tracts, which are under active discussion between the IBWC Commissioners.

You may wish to say

-- You understand that this matter is under active discussion.

-- You support this effort and regard it as evidence of the intention of both countries to find cooperative solutions to long-standing problems.

Diaz Ordaz will probably say

-- He hopes this problem can be resolved in a cooperative way.

-- It may be desirable to try to achieve a comprehensive settlement of all outstanding territorial issues, including agreement on procedures to deal with such territorial questions in the future.

3. El Salvador-Honduras Conflict

It might be useful to comment on the continuing problem of the El Salvador-Honduras dispute and encourage Diaz Ordaz to have the Mexican Government play a more active role in seeking a solution.

You may wish to say

-- You were gratified that the OAS members were effective in their effort to obtain prompt withdrawal of Salvadoran troops.

-- The roots of the problem are complex and deep, and it is important that the OAS members continue to work actively towards a permanent solution to prevent a renewal of hostilities.

-- We are working quietly, both bilaterally and through the OAS mechanisms, to persuade both Honduras and El Salvador to adopt more conciliatory attitudes for negotiations and to reverse the growing arms race between the two countries.

-- You feel that Mexico, which has great influence in Central America, can be very helpful in seeking a constructive solution.

Diaz Ordaz will probably say

-- He shares your concern about the situation.

-- Mexico will continue to work with the other OAS members to find a positive solution.

-- Mexico must proceed with some restraint, since some Central Americans increasingly view Mexico as the "Colossus of the North."

4. US-Latin American Relations

You may wish to say

-- We are giving very active consideration to Governor Rockefeller's report in considering new approaches to our Latin American policy.

-- You believe that the United States is bound to the nations of the Western Hemisphere by a special relationship, and that concept will underlie our policy approach.

-- You would be interested in President Diaz Ordaz' views on the state of US-Latin American relations.

Diaz Ordaz will probably say

-- He has always felt that the Alliance for Progress raised high hopes which could not be fulfilled.

-- US trade policy is critically important to Latin American economic progress.

-- He told Governor Rockefeller that the Inter-American system needs to be reinvigorated politically and coordinated more effectively with other organizations.

5. Your Recent World Trip

You may wish to give President Diaz Ordaz a brief account of the highlights of your recent world trip and of your approach to some major world problems.

PRESIDENT NIXON'S VISIT TO MEXICO
SEPTEMBER 8, 1969

Background Paper

United States-Mexico Commission For Border Development and Friendship

Organization and History

The US-Mexico Commission for Border Development and Friendship was created through an Exchange of Notes dated November 30 and December 3, 1966, in accordance with previous agreement that a joint commission would help to accelerate the economic and social development of both sides of the border and strengthen the friendly relations between the two countries.

The Commission consists of sub-cabinet level representatives from the major federal departments of both nations. A series of joint work groups deal with specific areas of concern. On the US side, the work groups include representatives of federal agencies, as appropriate, and the CODAF staff.

Assistant Secretary Charles A. Meyer is the Chairman of the US Section of the Commission and Mr. Antonio F. Rodriguez is the Commissioner-Director. Ambassador Enrique Sodi Alvarez is Chairman of the Mexican Section of the Commission. He also serves as Director of the National Frontier Program (PRONAF).

Objectives and Functions

CODAF's objective is to address itself to the improvement of economic and social conditions along both sides of the border through cooperative or parallel programs. In

addition, the Mexican Government proposed that CODAF should concern itself with any programs which would stimulate "friendship" between the two countries.

Accordingly, CODAF stimulates and guides:

1) The development of plans and proposals for joint, cooperative or parallel activities of mutual benefit by focusing the interest and resources of the two federal governments on border problems.

2) Contacts and working relationships between local governments and institutions along the border.

3) Demonstration or technical assistance projects, in the context of cooperative programs with Mexico, which can help meet the needs of local border areas.

Legislative Background

During its first two years of operation, as CODAF was finding its way, it was not clear that the US Section's limited coordinating functions would require statutory authorization. However, last year the Congress indicated it no longer approved of the method of financing US-CODAF's overhead expenses by contributions of the participating agencies. Accordingly, authorizing legislation is now necessary. Senate Joint Resolution 119 establishing the Commission is now under consideration by Congress.

Program

Although the specific programs to be addressed by CODAF depend on the conclusions reached at frequent meetings held by working groups, it is anticipated that during the coming year emphasis will continue to be placed on joint urban development planning, tourism, manpower studies, vocational training, and cultural exchanges.

PRESIDENT NIXON'S VISIT TO MEXICO
SEPTEMBER 8, 1969

Background Paper

Narcotics

The use of narcotics, dangerous drugs, and marihuana has increased drastically in recent years in the U.S. A large percentage of the narcotic traffic comes from Mexico. Mexican enforcement efforts have slowly improved but are still inadequate to cope with the problem.

A team of U.S. enforcement officials, led by the Deputy Attorney General, met with their Mexican counterparts in June, 1969. This meeting was one of a series of informal discussions which began in 1961 and have been held at irregular intervals since then. The participants discussed means of improving informal cooperation between the two countries on narcotics enforcement. The two sides issued a communique which, among other things, called upon both countries to accelerate their respective enforcement activities.

Over the years, the Mexicans have resisted U.S. initiatives to establish a formal bilateral commission to coordinate narcotics enforcement. They have, however, agreed to the stationing of U.S. enforcement officers on Mexican soil, have accepted materiel from the U.S. to help in their narcotics and marihuana eradication programs, and have exchanged intelligence with us.

Ambassador McBride has informed President Diaz Ordaz of our great concern over the worsening narcotic problem, and the President assured him of Mexico's desire to

continue collaborating closely with us. Our major problem will be to convince the Mexicans to divert substantial additional resources into improving their police capability. The Mexicans are very sensitive to any suggestion that Mexico itself is to blame for the present drug situation in the U.S., or that Mexico has been lax in enforcement. Accordingly in our approach to Mexico on this issue it is important to acknowledge the cooperation received from Mexico in the past.

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.E SECRETARY OF STATE
WASHINGTON

August 29, 1969

CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

Subject: Your Meeting with President Gustavo Diaz Ordaz of Mexico, September 8, 1969

You are scheduled to meet with President Gustavo Diaz Ordaz on September 8, 1969, to dedicate the new Amistad ("Friendship") Dam, located near Del Rio, Texas. The Dam was constructed jointly by Mexico and the United States under the auspices of the Mexico-U.S. International Boundary and Water Commission.

The meeting is important because it will give you the opportunity to demonstrate your personal interest in maintaining the cordial relations which exist between our countries. We believe the theme of the meeting should be that the Amistad Dam is a tangible benefit of enlightened cooperation and respect between good neighbors.

President Diaz Ordaz is in the fifth year of a six-year term of office. He is not eligible for re-election. He is particularly proud of having maintained cordial relations with us without compromising the basic Mexican foreign policy tenet of strict independence.

We anticipate that President Diaz Ordaz will not discuss bilateral issues extensively at your first meeting. He will be interested mainly in establishing

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a personal rapport with you and demonstrating this rapport to the Mexican public which can be expected to give your meeting close scrutiny. He may use the occasion, however, to express his general view of the importance to Mexico of trade with the U. S. He may also mention the problem of Colorado River water salinity.

For our part, we wish to emphasize our desire for continuing constructive relations with Mexico. We are discussing with Mexico the possibility of an omnibus settlement of remaining territorial issues (all of them minor) along the Rio Grande. You may wish to express your support, in principle, for efforts to reach such a settlement.

You may also wish to raise the question of narcotics and drug abuse. A major U. S. enforcement effort in this field will get under way shortly. This effort will cause some inconvenience to travelers on the U. S. side of the frontier and will, no doubt, provoke a certain degree of indignation among Mexican merchants and others dependent on the tourist trade. It would be appropriate and desirable for you to inform President Diaz Ordaz of our general intentions, while expressing your recognition of the fact that Mexico is cooperating with us in efforts to solve the drug problem.

Talking points are enclosed. Additional briefing materials will be available to you under separate cover.

William P. Rogers

Enclosure:

Talking points

TALKING PAPER FOR YOUR MEETING WITH PRESIDENT DIAZ ORDAZ OF MEXICO
September 8, 1969

TALKING POINTS

Presidential Opener

-- I recall my very interesting visits to Mexico in 1952, 1955, and again in 1967.

-- I am looking forward to continuing the close cooperation and collaboration which have characterized Mexican-U.S. Presidential relations in recent years.

-- Mrs. Nixon and I extend our very best wishes to your son who, I understand, is to be married on September 10.

-- I appreciate the warm reception given by you first to Governor Rockefeller and subsequently to Ambassador McBride when the latter presented his credentials in July.

-- I am most satisfied that no major differences exist between our countries on substantive matters. I would, however, like to bring two matters to your attention.

a. My grave concern about growing drug abuse in the United States.

-- I was most pleased to hear of your assurances of continuing Mexican cooperation in meeting this problem (given to Ambassador McBride). I was particularly glad that at the June meeting of enforcement officials in Mexico City both sides agreed on the need for stepped-up enforcement activities.

-- I am planning to initiate very soon a major enforcement effort in the U.S.

-- This effort may result in some inconveniences to travelers in the U.S. border area.

-- Ambassador McBride will be instructed to brief Foreign Secretary Carrillo Flores in advance of this effort.

-- I hope that both countries can arrange to hold another informal meeting of enforcement officers in the very near future. We will be happy to act as host for such a meeting in Washington.

b. The U.S. desires to push ahead on the settlement of remaining territorial issues between the two countries along the Rio Grande.

-- I understand this matter is under active discussion between the IBWC Commissioners and between Ambassador McBride and the Mexican Foreign Secretary.

-- I support this effort and regard it as another proof of the intention of both countries to find cooperative solutions to long-standing problems.

Topics Diaz Ordaz May Raise

Trade

-- Diaz Ordaz may emphasize to you the great importance he places on continuing access to U.S. markets for Mexican products. The President may express concern over the delay in creating the system of generalized trade preferences to aid all developing countries.

You May Wish to Say

-- Governor Rockefeller has already informed me that trade is uppermost on the minds of all Latin

American leaders. I anticipate that the Governor's formal report will give much attention to this matter. As far as Mexico specifically is concerned we have always given special attention to assuring that differences between us are equitably settled and we shall continue to do so. We are happy and pleased that various channels such as the Joint Trade Committee are available for consultation on matters of trade, and we shall continue to utilize these channels fully.

-- The United States is well aware of the importance that Mexico and other developing countries place on the creation of the generalized preferences system. The United States is carefully studying the matter and has already tabled its ideas on the subject with the OECD. In coming weeks a joint report on preferences will be worked out by the industrialized countries in the OECD. This report will be presented to the developing countries for their consideration in November.

Colorado River Salinity

-- Diaz Ordaz may bring to your attention his concern over renewed public outcry in Mexico on the Colorado River salinity issue. He will probably say that despite pressures to take the matter to the International Court of Justice, his Government intends to continue working for a practical solution along the lines of the 1965 agreement between Mexico and the U.S.

You May Wish to Say

-- The U.S. will continue to reduce, as rapidly as it practically can, the salinity of the water delivered to Mexico. We hope that the two Governments will be able to extend the 1965 agreement which expires in November 1970 and in this way find the means to a practical solution.

PRESIDENT NIXON'S VISIT TO MEXICO
SEPTEMBER 8, 1969

Background Paper

Mexican Political Situation

The Mexican political situation continues stable. President Diaz Ordaz has provided five years of moderate, effective leadership. There is no political party capable of providing serious competition to the ruling PRI (Partido Revolucionario Institucional) on a nationwide scale.

-- President Diaz Ordaz's term in office ends December 1, 1970. Under the Mexican Constitution he cannot be re-elected.

-- The selection of Diaz Ordaz's successor will occur this fall and general elections will be held in the summer of 1970. After extensive consultations with party leaders, President Diaz Ordaz will make known his choice. The chosen man will then be ratified by a Party convention.

-- At this point, there are three or four men who are given a good chance to be selected. All are Cabinet Ministers: Luis Echeverria (Secretary of Government); Emilio Martinez

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Manautou (Secretary of the Presidency); Juan Gil Preciado (Secretary of Agriculture); and Alfonso Corona del Rosal (Regent of the Federal District). All of these men are of relatively moderate persuasion; none are associated with the left or right wing of the party. All would be acceptable from the United States point of view.

There are several trouble spots in the internal situation with the potential to become serious problems in the future.

-- The student riots last fall revealed a "generation gap" in Mexican politics. Important sectors of Mexican youth clearly believe that the PRI is now more concerned with perpetuation of its own power than with continuing economic/social reform. Winning back the allegiance of these alienated sectors will be an important and difficult task.

-- The moderately conservative PAN (Partido de Accion Nacional) has been making slow but steady progress in certain areas of Mexico, although it controls no more than about 10 percent of the national vote. It has won several important local elections in the past several years. This fall the PAN is expected to make a determined bid for the Governorship of the State of Yucatan. The PRI could face a dilemma in this situation. It has never lost a state election and to do

so would be a severe psychological setback. On the other hand, if the PRI rigs the election in Yucatan, the youth alienation, referred to above, may be accelerated.

In general, however, the PRI continues to hold the support of the overwhelming majority of Mexicans, particularly the rural sector, organized labor, and the military. And the Party can legitimately claim credit for the growing, and highly visible, economic development of Mexico.

PRESIDENT NIXON'S VISIT TO MEXICO
SEPTEMBER 8, 1969

Background Paper

Mexican Foreign Relations

Mexican foreign policy has traditionally been based on two principles:

-- Non-intervention in the affairs of other countries;

-- Defense of its sovereignty from encroachment by the United States.

Until very recently, the implementation of the above policies has meant to Mexico a relatively passive and insular role in world and hemisphere affairs. However, with Mexico's growing prestige and with her expanding economic and commercial interests, her leaders seem now to be beginning to devote energies to increasing Mexican international activities.

-- In 1964, President Diaz Ordaz toured the Central American countries.

-- The Mexicans are very proud of their achievement in staging the 1968 Olympic Games.

-- Mexico has joined the Latin American Free Trade Area.

-- Mexico is playing an important role in certain specialized UN agencies, and in the area of de-nuclearization.

Issues with the United States center around bilateral and hemispheric questions.

-- The "style" in which U.S.-Mexican relations are conducted is now very cordial. Mexico seeks, and has received, a "special relationship" with the U.S. Numerous Presidential meetings, and other high level contacts, are now an accepted part of Mexico's relations with us.

-- However, it is still most important that the Mexican leadership adopt, at least publicly, an independent posture in dealing with the U.S. (Foreign Secretary Antonio Carrillo Flores, for example, would probably be a serious candidate for the Mexican Presidency were it not for the fact that he has been identified for years as a "close friend of the gringoes.")

-- In OAS affairs, the Mexicans frequently utilize their "non-intervention" doctrine to demonstrate their independence of the U.S. Hence, Mexico opposed our action in the Dominican Republic in 1965 and it continues to maintain diplomatic relations with Cuba.

THE WHITE HOUSE

WASHINGTON

September 29, 1969

To: Bud Krogh

From: Tom Whitehead

Attached is a paper from the Budget Bureau on a proposed major program issue in the area of marihuana policy.

It has some interesting implications for the process whereby policy issues and alternatives are referred to the White House and the President. More importantly, if it is an accurate representation of the situation, it suggests the possibility that our policy in this area may have more political costs than benefits and may backfire.

I assume you people are the focal point for White House involvement in this area and forward this for whatever use it may be.

Attachment

PROPOSED MAJOR PROGRAM ISSUE ON MARIHUANA POLICY

Background: The "Report of the Special Presidential Task Force Relating to Narcotics, Marihuana, and Dangerous Drugs" (June 6, 1969) represents the basis of Federal policy at the present time. The Report recommends strong measures to suppress the importation of Mexican marihuana.

The Report served as a grossly inadequate basis for Presidential decision, and the policy line laid down in the Report seems likely to result in embarrassment to the President in an area of extreme importance to him. This results from the following:

1. The President was given no policy options, no pro's and con's, and no cost estimates.

The Report asked the President to make a major commitment of funds and prestige to the fight against marihuana without looking at the alternative of a fight against the hard drugs (LSD, heroin, etc.). The problems of the two are different, and a 1967 Budget Bureau study suggested that Federal resources used against the hard drugs are about 100 times as effective as equal resources used against marihuana.

The Report listed none of the objections to the policy it proposed, some of which are discussed below. Finally, the Report did not inform the President of the costs of making the policy effective--costs that the discussion below suggests could rise to the hundreds of millions of dollars annually.

2. The proposed policy will damage relations with Mexico far more than the Report suggests.

The annual cash value of the marihuana crop to Mexico is on the order of $100 million. For a county whose total exports are about $1.1 billion, this is an important product.

To the individual farmer, the value of marihuana may be up to 40 times the value of any alternative crop. This provides substantial incentive for large scale resistance. The Government of Mexico may be most reluctant to commit itself to a program with such potential for social unrest.

Thus, if the U.S. desires Mexican participation in a crop eradication program, it will probably have to pay a multiple of $100 million/year (this is typical of efforts to persuade farmers not to produce) plus tens of millions of dollars annually in direct budget costs.

3. The proposed policy will raise a political backlash from U.S. border communities.

Even if the U.S. spends tens of millions of dollars in improved border facilities, the blanket search undertaken as "Operation Intercept" will continue to keep border commerce depressed by the 50-90 percent now being experienced. According to press reports, the United States - Mexican Border Cities Association is presently mobilizing Congressmen, Governors, and Mayors to protest to the Administration.

4. The proposed policy has a high risk of making the Administration appear inept by playing into the hands of organized crime and creating more hard drug addicts.

The Report failed to consider the place of marihuana in the total drug picture. There are substitutes for marihuana, the hard drugs. As marihuana becomes scarce, these substitutes will be used. This is true to some extent for LSD and heroin but even more likely for hashish and the super-potent tetrahydrocannibols (THC). The latter two belong to the same basic family as marihuana, and substitution is logical. There is absolutely no benefit to society from the substitution of stronger drugs for milder ones.

Even more seriously, the hard drugs lend themselves to manufacture and/or distribution by organized criminal syndicates. It seems probable that the Mafia would be a strong supporter of a diversion of Federal resources to marihuana as opposed to hard drugs.

Since the problem of substitution is known to anyone interested in the drug problem, the failure to alert the President to the risks of the proposed policy is surprising.

Study: A major, short-term study should be started at once to address the issue of allocation of Federal resources against marihuana vs. hard drugs. The study should compare explicit alternatives at equal resource levels. In addition, it should cover the following items:

a. Costs to Mexico of crop eradication program;

b. Direct budget costs of crop eradication and border control;

c. Substitution effects. It is not likely that precise data will exist, but models can be constructed under various assumptions that will illuminate the problem.

The study should be done on contract or by a group of professionals, so as to secure a judgment independent of that of the enforcement agencies. The function of the present Task Force should be to review and comment, so that the White House and the Budget Bureau receive the benefits of an adversary process. The reviewing Task Force would benefit from the participation of agencies with a more balanced perspective, such as the National Academy of Sciences, the Office of Science and Technology, the Council of Economic Advisers, and the Bureau of the Budget, all of which were excluded from the first effort.

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: Henry A. Kissinger

SUBJECT: Letter to You From Mexican Foreign Minister on Operation Intercept

In the handwritten letter at Tab B, the Mexican Foreign Minister asks you to take steps to correct the "excesses" of Operation Intercept, the narcotics control measure we are enforcing along the length of the US-Mexican border. The Foreign Minister states that:

-- the operation is doing great harm to the economy of the border region and creating serious frictions without, as far as he can ascertain, being especially effective in stopping marijuna traffic.

-- it has disturbed the Mexican people who cannot understand how, what they believe to be a drastic and unfriendly measure could be taken two weeks after you met with President Biaz Ordaz.

-- he has talked about this to Secretary Rogers, who was attentive and sympathetic, but that you are the one who has the authority.

The Minister acknowledged the unorthodox nature of such a letter and asks your pardon, but stresses the unusual nature of the situation. This unusual step does, in fact, underline the intensity of the Mexican feeling about Operation Intercept. As you know, President Diaz mentioned this "somber curtain" over US-Mexican relations during his toast for the astronauts at the official luncheon he hosted September 29.

A great deal of the intensity of the feeling is due, I believe, to the belief that the U.S. is cooling off toward Mexico, and that our attitude toward them will be basically unfriendly. After years of a very warm relationship, this is traumatic to them. It does appear, in short, that the operation is becoming a serious problem in our relations with Mexico.

In his talk with Secretary Rogers, the Minister suggested a bilateral meeting to review the operation and see what could be done to ameliorate the excesses.

Justice has agreed to bilateral talks, and we have instructed Embassy Mexico City (cable at Tab C) to inform the Mexican Government of this and to suggest that the Mexican Assistant Attorney General communicate directly with Deputy Attorney General Kleindienst to work out a time, place, and agenda.

I attach a brief acknowledgment to the Minister's note at Tab A, pointing out that in response to his suggestion we are prepared to enter into bilateral consultations on this problem. This is a longer and warmer letter than might normally be sent to a Foreign Minister, but I think the occasion calls for it.

RECOMMENDATION:

That you sign the letter at Tab A.

Attachments

10/7/71

Dear Mr. Minister:

I am deeply appreciative for the candor of your letter on "Operation Intercept" and of the spirit of friendship and interest in the good health of the relationship between our two countries which inspired it. Please be assured that I fully understand your deep concern. As you know, we are prepared to hold bilateral talks with officials of your government to review the operation and the problems this has caused. This is the direct result of your suggestion to Secretary Rogers.

You will, I know, understand how seriously I view the problem of narcotics. Traffic in narcotics has reached such proportions that I consider strict enforcement of laws against it to be absolutely essential. I am convinced that this traffic must be stopped for the sake of both our societies, and it was for that reason that I stressed the importance of cooperation between our two governments when I met with your President at Amistad.

It is naturally not our wish to damage the economies of the border area, harm the tourist industry or disrupt legitimate border traffic. I am sure that the bilateral talks which will be held will be able to find ways to achieve the objectives of Operation Intercept with minimum disruption of this kind. I would hope, in addition, that such talks might be expanded to consider how cooperation between our two countries can be even more effective in combating this problem, and I ask your earnest support for such cooperation.

Gustavo Díaz Ordaz

Luis Echeverría

May I express to you again my appreciation for your letter, and assure you of my complete understanding and good will as well as my profound desire to maintain the cordial friendship and mutual respect that have marked relations between our two countries.

Sincerely,

His Excellency
Antonio Carillo Flores
Secretary for Foreign Relations
Mexico City, D.F.

U. T.

THE WHITE HOUSE

WASHINGTON

October 7, 1969

MEMORANDUM FOR: MR. EHRLICHMAN

FROM: THE PRESIDENT

What is the situation with regard to the negotiations with Mexico on Operation Intercept? Rogers raised the point with me, and I suggested he talk to Mitchell and/or Kleindienst. It would appear that this is the time to negotiate since we have proved our point pretty effectively.

JOINT DECLARATION OF THE UNITED STATES AND MEXICAN DELEGATIONS

Mexico City, October 30, 1969

CUBIERTA AUTOM

FECHA : MAR-13-2003 06:32 AM
PARA :
FAX : 55530306
DE :
FAX :

In accordance with the agreement signed at Washington, District of Columbia, on October 10, 1969, representatives of the Governments of the United States of America and Mexico met in Mexico City on October 27, 28 and 29, 1969, for bilateral talks on the control of the illicit traffic in narcotics, marihuana and other dangerous drugs.

At this meeting, the two delegations reaffirmed the joint communique issued at Mexico City on June 11, 1969, as well as the commitments entered into by both Governments in the agreement signed in Washington, D.C. on October 10, 1969, in which, by mutual agreement, Operation Intercept was superseded by Operation Cooperation. The United States noted that as a result of the measures taken in pursuance of its commitment, delays, irritations and inconveniences at the border and at other ports of entry had been reduced to virtually pre-Operation Intercept levels.

The talks were

The talks were based on the agenda which emanated from the agreement signed at the above-mentioned Washington meeting. The United States delegation presented to the delegation of Mexico for its consideration working materials relating to the various items of the agenda.

The two delegations decided to establish a joint working group to examine these materials and those which will be presented by the Mexican delegation in detail with a view to identifying possible bases for agreement between the two Governments and to report their findings to the two Governments. It was agreed that the working group would submit a progress report by December 15, and further reports from time to time, with the understanding that such reports would only be recommendations to the respective Governments.

The delegation of Mexico emphasized that, in accordance with Mexican national policy and the provisions of the Mexican Constitution, its Government's efforts to continue intensifying the fight against the illegal traffic of

narcotics would

narcotics would continue to be carried out exclusively by Mexican personnel under Mexican direction. The United States expressed its complete understanding of this position.

The two delegations expressed their satisfaction at the spirit of mutual friendship and understanding which characterized the meeting and reiterated their determination to maintain relations between them at the highest levels of friendship, understanding and respect for the dignity and sovereignty of their respective countries.

Mexico City, October 30, 1969.

For the Government of the United States of America,

Robert Henry McBride

Richard G. Kleindienst

Eugene T. Rossides

For the Government of the United Mexican States,

David Franco Rodríguez

Oscar Rabasa

Subj: Mexico

ACTION: AA/LA for OLA sig
INFO: OLA; Hannah log;
Williams log; OPS

Jun 28 11 37 AM '71

COMMITTEE ON FOREIGN RELATIONS
WASHINGTON, D.C. 20510

EXECUTIVE SECRETARY June 25, 1971

OPS/LA Routing

PEllena
CPBernal
JHCaldwell
AWJee

Remarks

FILE

Mr. Matthew J. Harvey
Director
Office of Legislative Affairs
Agency for International Development
Washington, D. C.

Dear Mr. Harvey:

A press report from Mexico City carried in the Foreign Broadcast Information Service for June 18 (page L1) alleges that the military officers in charge of the "Falcons" were trained in the United States. The reports specifically mentioned Colonel Manuel Diaz Escobar.

I would appreciate any information available to AID with respect to this matter.

In addition, please supply a detailed description of AID's police or related training programs involving Mexican nationals for the last five years. Include the names of each Mexican receiving such training, as well as the dates, location, and nature of training.

Sincerely yours,

J. W. Fulbright
Chairman

FEDERAL RESERVE BANK OF NEW YORK

OFFICE CORRESPONDENCE

DATE April 8, 1976

TO Files

SUBJECT: Request for $360 million swap drawing by Bank of Mexico

FROM Scott E. Pardee

~~CONFIDENTIAL~~

Mr. Miguel Mancera, Deputy Director General of the Bank of Mexico, called yesterday to request a drawing by the Bank of Mexico of the full $360 million available under the swap arrangement with the Federal Reserve. He explained that Mexico had suffered a sudden heavy outflow of funds over the last few days, which had already cost $160 million in reserves, including $80 million on April 7 alone. More outflows could be expected through the Easter weekend.

For some time, the market had been nervous over policy possibilities in view of the forthcoming presidential election. The election will take place on July 4 and the inauguration of the new president will be on December 1. Although it is a foregone conclusion that Lic. López Portillo will win, there is genuine market concern over the policies of the Echeverría government as it moves into its final months. Devaluation rumors in particular are rife, in view of the higher rate of inflation in Mexico than in the U.S. In addition, each year prior to Easter weekend the peso is subject to speculative selling; in 1954 the peso was devalued over an

Easter weekend, and the market remembers that even today. Finally, Mancera noted a political squabble, which had developed in recent days, over a bill prepared by the government to deal with real estate interests. This has given rise to some rather personalized mud-slinging about profiteering in real estate. He naturally did not want to go into the specifics, but said that the squabble had been damaging to market sentiment at this time.

Last week, when I was in Mexico, Lic. Fernández Hurtado, Director General of the Bank of Mexico, had indicated that the trade position had improved somewhat in early 1976 and that Mexico had had a small reserve gain for the first quarter of the year. He expected some selling pressure on the peso during the Easter period but believed it manageable. He thought that the election time in July and inauguration in early December might also be difficult. Nevertheless, he expressed confidence that they could weather speculative pressure as long as the current account continued to improve. In that connection, they are banking on the economic recovery in the U.S. and elsewhere to expand exports, while Mexico will do its best to hold down imports.

In yesterday's call, Mancera said that the heavy reserve losses were a surprise. With a week and a half to go before Easter the outflows would surely continue, and for that reason the Bank of Mexico might well need to use the full

$360 million available under the swap. Although some reflows normally develop after the Easter period, Mancera suggested that in view of the general atmosphere of uncertainty, it would be realistic to expect that they would ask for renewal after three months, with repayment within six months.

Turning to repayment prospects, he said that the Bank of Mexico believes that policies already adopted should suffice to stage an important improvement in Mexico's current account through next October. As of now, no new policy measures are planned. The process is more one of maintaining pressure within the government to avoid budgetary excesses by the outgoing administration, and the Bank is reasonably hopeful that this effort will succeed.

As backstop to the drawing, Mancera said that reserves stand at $1,550 million, including $118 million in gold and super gold tranche positions with the Fund and just under $100 million of SDRs. Mexico also might have access to up to $626 million of credit tranche drawings from the Fund (including the 45 per cent increase agreed at Jamaica) under certain conditions. In addition, although he did not specify the amount, the Bank of Mexico has not made unusual use of its credit lines with commercial banks. At this stage, however, since most of Mexico's currency reserves are held with commercial banks, heavy liquidation of CD's or drawdowns on credit lines would provide those banks with a signal that a significant outflow has occurred. On that basis the swap drawing directly on the Federal Reserve would help avoid additional repercussions in the marketplace.

When in Mexico last week, I raised with Lic. Fernández Hurtado the question of market concern over the possible devaluation of the peso. He reiterated the Mexican authorities' strong view that there is no reason for the peso to be devalued. He admitted that the rate of inflation in Mexico has been higher than in the United States over recent years. (Last year, prices there rose by some 13 percent, and the authorities hope to reduce this year's rise to no more than 10 percent.) Nevertheless, he argued that the experience with devaluations has been negative both in Mexico, citing the Mexican markets' long memory of the 1954 devaluation, and in other developing countries, citing the inability of devaluation-prone countries like Brazil to bring their inflations under control. The Finance Ministry and the Bank of Mexico concur that a fixed rate policy vis-à-vis the dollar is necessary to maintain internal discipline. In their view a devaluation would exacerbate inflationary pressures and open a pandora's box of other problems.

On receipt of the request for the swap drawing, Mr. Holmes and I discussed the matter with Chairman Burns and Mr. Volcker, Vice Chairman Gardner and Governor Wallich, all of whom agreed that the drawing seemed appropriate. Several commented that the Mexicans had a good repayment record in the past. In discussing the matter with John Reynolds of the Board Staff, I suggested that a memorandum be prepared by Yves Maroni, who has a sound grasp of the Mexican economic situation. Subsequent

to our conversations within the Federal Reserve, Mr. Holmes and I consulted with Under Secretary Yeo, who also agreed that the drawing was appropriate. I also informed Under Secretary for Economic Affairs at the State Department, Charles W. Robinson, of the drawing.

Following these various conversations, I called Mancera back and told him that we agreed to the swap drawing for value April 9. I stressed that in the event market reflows did not occur, we would look to Mexico's drawing rights with the Fund as a take-out. Mancera thanked me for responding so quickly, but I answered that the Bank of Mexico's excellent repayment record on past drawings had paved the way. He was pleased to hear this and indicated that he would stress the point in discussions with the government.

SEP:msb

Res - 516 p. 1 14/14-76

RESTRICTED

Recent Economic and Financial Developments in Mexico and Prospects for 1976-77

Mexico's balance of payments deficit on current account increased substantially in 1975, mainly as a result of the world recession and a rise in interest payments on external obligations. As shown in table 1, according to preliminary data, the current account deficit exceeded $4 billion, up from about $2.9 billion in 1974. The world recession was the principal reason why most traditional exports declined, and it was only because of the steady rise in exports of petroleum from wells opened in 1974 that the year ended with the value of total exports virtually unchanged from 1974. In contrast, the value of imports rose more than 8 per cent. The rise in imports in 1975 was modest when compared with increases of more than 50 per cent in each of the previous two years, and it was associated with a marked slowdown in the country's rate of economic activity. The world recession also brought about a 5 per cent drop in tourist earnings. The rise in interest payments reflects the rapid increase in the country's external debt and a rise in the average interest rate on outstanding obligations.

The current account deficit was financed by a net inflow of medium- and long-term capital, as has been the case for many years. Last year, this net inflow totalled about $4.3 billion, over $1.3 billion more than in 1974. This was enough to allow an increase in net official foreign assets of $151 million.

Table 1

Mexico - Balance of Payments

1973-75

(in million dollars)

	1973	1974	1975 P/
Merchandise Exports	+2,419	+3,443	+3,445
Merchandise Imports	-3,656	-5,754	-6,283
Trade Balance	-1,237	-2,311	-2,838
Services (net)	- 252	- 678	-1,344
Travel (net)	(+ 808)	(+ 902)	(+ 810)
Investment Income (net)	(-1,135)	(-1,599)	(-1,974)
Other (net)	(+ 150)	(+ 19)	(- 180)
Private Unrequited Transfers (net)	+ 66	+ 100	+ 114
Balance on Current Account	-1,423	-2,889	-4,068
Govt. Unrequited Transfers (net)	+ 8	+ 13	+ 12
Long-Term Capital (net)	+1,820	+3,048	+4,303
Direct Investment in Mexico (net)	(+ 457)	(+ 678)	(+ 749)
Other Long Term Private Capital (net)	(+ 119)	(+ 590)	(+ 854)
Public Sector Borrowings (net)	(+1,293)	(+1,780)	(+2,700)
Subscriptions to IBRD and IDB	(- 48)	(--)	(--)
Short-Term Capital (net)	- 308	+ 242	+ 486
Private Non-Bank Capital (net)	(- 178)	(- 441)	(+ 250)
Bank Capital (net)	(- 130)	(+ 683)	(+ 236)
Official Foreign Assets (net)-- (increase:-)	- 144	- 32	- 151
Errors and Omissions (net)	+ 46	- 381	- 582

P/ Preliminary

Source: International Monetary Fund, International Financial Statistics, and IMF staff.

The country's real gross domestic product last year is estimated at about 4 per cent more than in 1974. With population rising at about 3.5 per cent per year, this represents little real growth per capita. The 1975 growth rate was also well below the average rate achieved in the past 20 years and below the 1974 rate--both about 6 per cent. With slower growth came a slower rate of increase in prices, but the consumer price index late last year and early this year was still showing a rise of more than 13 per cent over the year-earlier levels, and the monthly percentage increase appeared to have begun to turn up in January and February, after diminishing rather steadily during 1975. Recent price movements are summarized in table 2.

Until early 1973, the rate of inflation in Mexico was comparable to that in the United States. Its subsequent acceleration is only partly attributable to the impact of rising prices of many imported products. More important, perhaps, were an accelerated growth of domestic expenditures, chiefly by the public sector, an expansionary incomes policy, and shortfalls in agricultural production owing to inclement weather.

Public spending began to increase faster late in 1972 as the Government stepped up its rate of investment and the growth of its welfare programs. As public sector revenues rose more slowly, reliance on financing from the banking system grew. However, the ability of the banks to channel non-inflationary resources into the purchase of public sector securities was rising more slowly, and the Bank of Mexico itself

ended up holding an increasing amount of these securities.

At the same time, the authorities undertook to compensate workers for the rise in the cost of living and began to grant more generous and more frequent increases in the minimum wage, setting the pattern for significantly larger raises in other wage categories. The latest increase in minimum wages, effective early this year, averages about 21 per cent (with a range of 17 to 34 per cent). This was the first increase in 15 months and, like earlier ones, it is fairly close to the rate of inflation in this 15-month period. It is bound to make it more difficult to reduce the inflation rate further in 1976.

Steps began to be taken to correct the internal financial disequilibrium in the latter part of 1974. In September of that year, the reserve requirements of the banks were raised substantially. Subsequently, some administrative improvements were introduced to achieve greater discipline on current government expenditures. In addition, a number of taxes were substantially increased and a new 50 per cent tax on gasoline sales was instituted. Rates for public services also were raised. At the same time, the decline in world interest rates beginning in the latter part of 1974 made Mexican interest rates relatively more attractive, and this helped the financial institutions in the country to attract a larger flow of funds than in the previous two years, enabling them to absorb a greater volume of public sector securities in 1975. Absorption of public securities by the financial

Table 2

Mexico - Index of Consumer Prices

in Mexico City

in Selected Months Since December 1972

	General Index (1968 = 100)	Average Monthly Change Since Last Month Shown (Per cent)	Change from Same Month Previous Year (Per cent)
1972 - December	124.1		
1973 - March	128.2	+1.1	+ 7.4
June	132.6	+1.1	+ 9.8
September	139.6	+1.8	+13.8
December	149.5	+2.4	+20.5
1974 - March	156.7	+1.6	+22.0
June	161.2	+1.0	+21.6
September	169.3	+1.7	+21.3
December	180.6	+2.2	+20.8
1975 - March	184.6	+ .7	+17.8
June	192.5	+1.4	+19.5
September	198.7	+1.1	+17.4
October	200.3	+ .8	+15.2
November	202.8	+1.2	+13.3
December	204.6	+ .9	+13.3
1976 - January	207.9	+1.6	+13.3
February	211.9	+1.9	+15.1

Source: Banco de México, Indicadores Económicos

institutions was helped by the severe limitations on credit to the private sector brought about by the tightening in reserve requirements.

However, the slowdown in economic activity as the year progressed began to cause concern and, after mid-year, the Government again stepped up the rate of public spending. For the year as a whole, about 5 per cent of total public expenditures were financed directly by the Central Bank, and this financing accounted for about 75 per cent of the increase in the money supply (narrowly defined). The increase in M_1 in 1975 was 23 per cent, somewhat more than in the two previous years, and about twice the pre-1973 rates.

For 1976, public spending is projected by the authorities to increase by only 10 per cent over the 1975 level. This compares with a 30 per cent increase in public spending from 1974 to 1975. If the recent rates of inflation continue unchanged during the year, this would represent a cut in public sector spending in real terms. Even so, the fiscal deficit would amount to about 27 per cent of total public expenditures. The authorities hope that three-fourths of this can be financed internally and without direct recourse to the Central Bank, and the rest externally. To avoid recourse to the Central Bank, credit to the private sector will have to remain tightly restricted. Under such a projection, the rate of growth of real GDP for the year would probably not exceed the 1975 rate, and there should be some improvement in the balance of payments on current account.

There are reasons to question whether this projection will be realized. The recent wage increases appear to exceed what would have been consistent with a 10 per cent increase in public spending. Moreover, it is likely that public spending will exceed the projection if only because this is the last year of the term of office of the President of Mexico, and the outgoing Administration, like its predecessors, will want to complete as many of the projects which it started as it possibly can. The American Embassy reports that private sector economists generally tend to doubt that public spending will be held down as much as is officially projected. Private forecasters believe that there will be some recovery in real GDP growth, an intensification of inflation, and a further deterioration of the balance of payments on current account.

As regards the balance of payments, the worldwide economic recovery should be reflected in an upturn in Mexican exports and tourist earnings. However, Mexican industry may find itself increasingly at a competitive disadvantage, after three years of inflation at rates in excess of those in the United States, especially if this differential widens in 1976. Also, some tourists may stay away because of Mexico's stand on Israel in the United Nations. The principal hope for increased current account earnings lies in the petroleum sector and this could make a substantial contribution. Production from the rich wells of southern Mexico began in 1974 and has not yet reached its full potential. It has already turned the country's position from that of a net importer of

petroleum to one of a net exporter, as shown in table 3. Official policy is "to increase the rate of production /there/ to the highest sustainable rate consistent with current conventional practices, in order to make the maximum contribution to the current account of Mexico's balance of payments."1/

At the same time, it will be difficult to hold down imports, especially if it proves impossible to hold down public spending. Equally important, interest payments on the external debt are bound to rise as the debt increases. All told, any improvement this year in the balance of payments on current account is likely, at best, to be rather moderate, and there is a possibility that some further deterioration may occur.

For the longer run, there are reasons for somewhat more optimism. A new Administration will take office in December, following the expected election of former Finance Minister José López Portillo as President in July. The change in Administration may be the occasion for the adoption of stronger anti-inflationary measures if, as seems likely, the new President's Finance Ministry experience leads him to attach more importance than his predecessor to the financial consequences of his political decisions. In addition, in 1977, it is expected that a large new copper mine now under development will begin to contribute substantially to the export picture.

1/ Prospectus for $50 million Issue of Mexican Government Bonds, dated February 19, 1976, p.14.

Table 3

Mexico - Petroleum

Exports and Imports

(in million dollars)

	1974			1975 P/		
	Exports	Imports	Balance	Exports	Imports	Balance
Crude Oil	61.9	76.4	- 14.5	393.3	--	+393.3
Natural Gas	.1	--	+ .1	--	--	--
Refined Products	62.0	240.5	-178.5	23.7	225.7	-202.0
Petrochemicals	9.5	74.4	- 64.9	4.3	57.5	- 53.2
Total	133.5	391.3	-257.8	421.3	283.2	+138.1

P/ preliminary

Source: Prospectus for $50 million Issue of Mexican Government Bonds, dated February 19, 1976, p. 15.

But until these developments occur, uncertainty will continue to produce periods of nervousness in the Mexican foreign exchange market, heightened by questions as to whether Mexico can raise enough financial resources in external markets to cover its needs. The question whether the peso should be devalued is receiving increasing attention in private circles. The principal argument in favor of devaluation is that, over the last three years, the rate of inflation in Mexico has exceeded the rate prevailing in the United States by an average of about 9 percentage points per year (as measured by the respective consumer price indices) and a large differential is likely to continue for at least another year, and that this is interfering with the competitiveness of Mexican exports. On the other side, it is argued that the dollar-peso rate has remained unchanged for 22 years, that its alteration would be a shock to foreigners who have invested large amounts in peso-denominated accounts in Mexican financial institutions and would close this source of external financing for many years (for fear of new devaluations), that the internal burden of servicing the country's huge foreign debt would be greatly increased, that exports of raw materials (still the bulk of the country's exports) are traded at world prices which would not be affected by a devaluation, that there is little or no excess industrial capacity with which to increase manufactured exports, and that a devaluation would set off an upsurge of inflation as prices of imported goods (in pesos) would increase and prices of domestically produced articles would go up in sympathy

(presumably more for psychological reasons than in response to cost increases)--in effect leading to what is called the "argentinization" of the Mexican economy.

The authorities are determined to defend the current dollar-peso exchange rate. Their principal line of defense is the country's reserves which amounted to more than $1.6 billion on March 29. The country's credit tranches in the International Monetary Fund total about $626 million (including the 45 per cent addition approved at the recent Jamaica meeting of the IMF's Interim Committee), but not all of it would be available without the adoption of corrective policy measures acceptable to the Fund. The Bank of Mexico's swap arrangement with the Federal Reserve System is for $360 million, having been doubled in August 1975. Mexican drawings under the swap have occurred twice before, in August 1974 and in September 1975. Both drawings, for $180 million in 1974 and for $360 million in 1975, were repaid before they came due at the end of three months. The Bank of Mexico also has a swap arrangement with the US Treasury, the amount of which was increased from $200 to $300 million at the end of 1975. But this cannot be drawn upon until after the swap line with the System has been fully drawn. The country appears to be able to continue to borrow in international markets, and this may be important in helping to repay short term obligations.

Whether the defense of the peso will ultimately succeed is likely to depend importantly on the ability of the authorities to prevent the fiscal position from getting out of hand, and eventually to restore a sound fiscal and monetary policy.

Prepared by Yves Maroni
Division of the International Finance
April 14, 1976

EYES ONLY

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

May 24, 1976

THE PRESIDENT HAS SEEN.

MEMORANDUM FOR THE PRESIDENT

Subject: Trip to Chile, Brazil and Mexico

The purpose of my trip was to explore ways in which we could develop closer economic ties with the countries of Latin America. Economic cooperation in Latin America can bring not only economic benefits to the United States but also can assist us in our foreign policy goals in that part of the world. We have been able to develop such a parallel economic and political approach in the Middle East, and based on my experiences in these three countries, I believe we can also do it in Latin America.

Each of the countries I visited poses a different set of problems, but I completed this trip very optimistic about the economic potential in Latin America. I met with President Pinochet in Chile, President Geisel in Brazil, and President Echeverria in Mexico, as well as having extensive discussions with their economic leaders. In each of the countries, I made it clear that I was not bringing additional aid commitments, but rather that I wanted to find ways we could help the countries to help themselves.

Chile

The government in Chile is taking firm economic steps to restore stability and economic growth to the country. Its Finance Minister, Jorge Cauas, inherited an economy that was characterized by (a) high inflation, (b) the inability to service its foreign debt obligations, (c) declining output, and (d) labor crises in many sectors. Most of these problems were the direct result of excessive domination and intervention of the previous Allende administration. Minister Cauas and the current economic

EYES ONLY

team have taken firm economic steps and have demonstrated a clear desire to bring greater economic freedom to the country. They have removed most of the price, foreign trade, and other economic controls that existed previously. As a result of these policies and despite extensive obstacles, Chile has made considerable economic progress. The country has been able to double its non-copper exports, increase its agricultural production, and resume full payment of its foreign debt. Economic problems certainly remain. Chile still faces high inflation and high levels of unemployment, but based on my discussions, I feel that both of these problems should be improving this year.

Without offering any foreign aid, I was able to support these efforts toward greater economic freedom and I made it clear that the United States is interested in Chile's well-being. At the same time, however, I was very direct in telling the Chilean Government that we will not be able to help, and that they would continue to lose the support of others, unless they demonstrated that they are committed to ensuring human rights. We had had extensive discussions in Washington on this subject before I accepted their invitation to go. Here in Washington, and again in Chile, they emphasized that they were committed to ensuring human rights, and during my visit, I think we were able to agree on some significant concrete steps toward that end:

(1) They announced the release of 49 prisoners and, more important, stated that the momentum of the "parole program", under which prisoners are released, would be increased. In fulfillment of that commitment, they announced the release of another 50 prisoners just last week after my visit. I believe more will be coming.

(2) They announced that they would meet with the working group on the U.N. Commission on Human Rights to work out procedures for a group to visit Chile.

(3) They announced publicly for the first time that they had tried and sentenced officials who had abused prisoners.

This is certainly not the end of what is needed on the human rights issue in Chile. A state of seige still exists there under which they still may imprison people without charge. However, I do think that we got an important message across -- namely, that they must do more or they will continue to lose the support of the United States and others. President Pinochet agreed with this, and I feel that the things they did while I was there and afterward are solid steps in the right direction. I believe it is a mistake to focus on the number of prisoners released, whether it is 50 or 30 or 100, but rather to focus on the process under which human rights will be respected. In this regard, I think we have made good progress, and it would be a grave mistake to impose sanctions now. In this regard, we must resist current Congressional efforts to cut back our economic support to Chile, especially when they seem to be moving forward.

Brazil

Brazil offers great economic potential and certainly is playing a central role in Latin America. Henry Kissinger visited there in February and established a consultative mechanism to provide political impetus to our relationship. During my visit, we were able to reach agreement on important bilateral issues which should help us to expand trade and investment between the United States and Brazil.

In the trade area, we agreed on the following:

(1) That Brazil would phase-out its subsidy progran which has resulted in an unfair trade advantage for Brazilian products.

(2) That as a result of this action, we would act to further liberalize trade by agreeing not to reevaluate present countervailing duties on footwear until the last quarter of 1977; and by waiving countervailing duties on leather handbags, effective July 1, 1976. In addition, with respect to soybean oil, we resolved the threatened action by the U.S. industry. Based on the Brazilian government's action, the U.S. industry announced they would not file a complaint.

In the investment area, we agreed to work together to facilitate U.S. private sector investment in Brazil. They gave me a list of key Brazilian projects in areas such as iron ore, oil, hydroelectric power, copper and agriculture, and I am distributing these to the private sector here in the United States. We also arranged for a negotiation of a double tax treaty which will be an important step towards increasing investment. A team from Brazil will visit Washington in June to negotiate this treaty.

I believe these agreements will mark a new level of cooperation between the United States and Brazil. In order to ensure that the relationship grows, Finance Minister Mario Simonsen, and I established a formal mechanism, under the framework of the memorandum which Henry Kissinger signed last February. It involves the establishment of a consultative group on trade, investment and financial issues which will meet regularly. In this way, I believe that we have properly institutionalized the important economic relationship between Brazil and the United States.

Mexico

I had extensive discussions with Finance Minister Mario Betetta and other economic officials about the economic situation in Mexico. Recently, there has been a great deal of speculation about the Mexican economy and the peso, with the press reporting that the peso was about to be devalued. I thought it was important that the focus of attention be shifted away from the value of the peso and towards the underlying economic policy that Mexico is adopting. The Mexican officials explained to me the measures they are taking to bring public sector spending under better control. This, along with limiting wage increases, is the key to Mexico's current economic program. They indicated that the increase in public sector expenditures had slowed, revenues had risen and the budget deficit had been reduced in the first four months of 1976. Further, the current account deficit in the first quarter of 1976 had improved, with exports increasing by 20% over the first quarter of 1975, while imports were falling by 2% over the same period.

I believe the Mexican government knows what needs to be done economically, and I think the prospects are good for a significant reduction in the level of inflation and in the current account deficit. I am particularly encouraged about the benefits that can flow to the Mexican economy from increased oil production. They have the potential for exporting over one million barrels a day by 1980 which at $10 a barrel would provide annual revenues of about $4 billion. There have been recent press stories that Mexico had decided to join OPEC and we discussed this matter. They told me that they had not decided to join. They are very well aware of the drawbacks of their joining; the principal one of which is that they would lose their ability to set their internal oil policy. I believe that Mexico offers one sound, alternative source to OPEC in the future and we should be encouraging Mexico to develop their oil potential.

Overall, I was delighted with the results of this trip. I view it as another step in strengthening the understanding of U.S. economic policy abroad. These countries have welcomed your trade decisions which clearly demonstrate that we are not turning protectionist. In the months ahead, we should be encouraging policies like that throughout the world.

Bill

William E. Simon

EXECUTIVE
CO100
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MEMORANDUM

NATIONAL SECURITY COUNCIL

INFORMATION

September 14, 1976

MEMORANDUM FOR: BRENT SCOWCROFT

FROM: ROBERT HORMATS

SUBJECT: The Mexican Float--
Many Unanswered Questions

Keep this in mind for the Portillo Talks.

Two weeks after Mexico's decision to float the peso -- effectively a 40% devaluation at this point -- there are signs that the experiment may be turning sour. The measure can only improve Mexico's international economic position if followed by appropriate corrective domestic policies. But such policies do not appear to have been devised as yet. The burden will fall on President-elect Lopez Portillo.

Background

The devaluation surprised Mexicans as well as foreigners. The symptoms of over-valuation were many and visible, but it was generally thought that the Mexicans would continue their costly foreign borrowing (roughly $5 billion per year) until earnings from oil exports corrected the imbalances in the trade account. (Trade deficits have been running above $3 billion.) In the meantime, however, the costs were high in terms of both debt service and of economic growth, as capital flight ($200 million per month) reduced investment and job creation. Budget deficits financed partly from abroad fueled inflation, which has averaged 17% in recent years.

The Announcement

The announcement was made on the eve of President Echeverria's final State of the Union address. Echeverria emphasized the long-term benefits of a more competitive international position, noting that exchange rates must reflect fluctuating economic conditions. It was justifiable to borrow money to invest, Echeverria said, but not to increase consumption, and certainly not to finance capital flight.

Echeverria also outlined measures to insure that the domestic impact of devaluation was cushioned. Selective salary increases would protect wage earners, price controls would be applied to basic consumer items, and interest rates would rise for savers and remain stable for small borrowers. Inflation would be controlled by cutting back non-essential budget expenditures and limiting the growth of credit. Taxes would be imposed to reduce the windfall profits of exporters.

Reaction

The initial reaction in Mexico was mild. The government moved ostentaciously against retailers who took advantage of the confusion to jack up prices. Informed business circles were reassured by the availability of $1 billion of IMF money to bolster exchange reserves, and more through U.S. swap arrangements if necessary. But now pressures are building. Labor organizations, at first seemingly unaware of the implications for the standard of living of wage earners, are now expressing their concern stridently, and there is considerable uneasiness about implementation of the announced stabilization measures. Prices of basic items are now rising sharply, and confusion is increasing in the absence of firm and visible government action.

Internationally, the peso seems likely to stabilize at the new rate of roughly 20 per dollar, which the Bank of Mexico is supporting. On the first day of free trading in Chicago, futures settled at this spot rate, and the Finance Minister has now indicated it may become relatively fixed.

Potential Problems.

The most immediate issue is whether the devaluation will correct Mexico's distorted payments position. The success of the devaluation depends primarily on the extent to which the government reduces liquidity and consumption in a politically tolerable way. A devaluation cannot be successful without some degree of austerity, since the inflation which made it necessary must be treated simultaneously through monetary and fiscal measures. Moreover, the capital reflow resulting from the devaluation must be neutralized to prevent an increase in the money supply. In addition, import prices will obviously be higher immediately, intensifying the need for domestic restraint. To correct this requires a lower level of deficit spending and a reduction of the money supply, which together will lead to lower real incomes. Echeverria's rhetoric emphasized working together rather than sacrifice, and protection from

negative effects rather than tightening up to fight inflation, and Embassy Mexico City reports that the realization that things are going to be tighter seems not to have taken hold. The austere budget being planned by Lopez Portillo may thus come as a shock. How firmly he will be able to hold to the wage and price guidelines which will be necessary to make the devaluation work is a key question. Insufficient control will simply re-create the conditions which lead to the crisis. Firm control, on the other hand, could create problems with the less affluent [redacted] on the other side of our southern border.

A second question is the response of the international sector. Mexico's import requirements of capital goods and raw materials would appear to be relatively inelastic -- i.e., they are essential to economic growth and production and will be imported no matter what the price. In this case imports may not fall in volume, and they will certainly rise in price terms even at constant volume. Further, the country's exports cannot expand rapidly if they are now being produced at capacity, as is the case with at least some products. Thus it will take adroitly designed and administered incentives to insure that the devaluation has the desired effects on earnings and production in the medium to long term.

Another question, one which has immediate implications for U.S. investors, is whether the devaluation portends a shift on the part of the Mexican Government from financing development through foreign borrowing -- which they clearly realize had reached unhealthy levels -- to a new strategy of encouraging equity participation of the foreign capital which will be attracted by the more favorable exchange rate.

We will also have to be aware that the increased competitiveness of Mexican exports to this country may result in complaints from U.S. manufacturers of affected products, with corresponding demands for increased protection. This may test our established policy of objective review of these cases on their economic merits. The removal of export subsidies, made possible by the devaluation, and the imposition of higher export taxes to reduce windfall profits, should if anything increase the "fairness" of Mexican competition.

Finally, we can expect that as things get tougher at home for poorer Mexicans and the dollar earned abroad buys more for the family back home, the U.S. labor market will become even more attractive to "illegals." This will result in additional calls to end the displacement of U.S. workers by cracking down on immigration laws, already a delicate element in U.S.-Mexican relations.

THE SECRETARY OF THE TREASURY
WASHINGTON 20220

SEP 20 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Financial Arrangements with Mexico

SUMMARY

The Treasury and the Federal Reserve are today announcing new arrangements which will make up to $600 million in additional funds available to the Government of Mexico to counter disorderly market conditions. These funds are being made available on an interim basis to cover possible Mexican needs until credit can be disbursed by the International Monetary Fund (IMF). The necessary groundwork has been laid with the IMF management to enable Mexico to obtain future support from the IMF. I believe the arrangements we have concluded will have important psychological benefits in helping to calm the market situation in Mexico. They will also serve as a demonstration of continued U.S. political interest in Mexico. At the same time, the security of our funds is assured by the agreement of the Government of Mexico to repay any drawings under these arrangements within 10 days of the receipt of funds from the IMF.

BACKGROUND

The actions we have taken implement the steps outlined for you in my memorandum of August 24. The Mexican Government has abandoned its unrealistic exchange rate and is introducing a number of major changes in its economic policies. It has had a series of intensive discussions with the staff of the International Monetary Fund and the Managing Director has today written the Mexican Finance Minister stating that in his view the Mexican program is sound and adequate to overcome Mexico's balance of payments problem within a reasonable period and that the program will enable

Mexico to re-establish a stable economy over the long run. The IMF will now proceed to formal consideration of Mexico's request for credit arrangements which could eventually make up to about $1.2 billion available over a period of approximately three years.

It may be several weeks, however, before the first portion of the IMF money available to Mexican authorities under its existing rights to borrow funds from the IMF will be disbursed. In the meantime, the Mexicans needed assurance that funds would be available to deal with possible disorderly market conditions. A new $365 million U.S. facility will meet that need. Under the $365 million agreement, drawing facilities will be available for a period of up to three months or until Mexico is authorized to draw from the IMF an amount of currencies approximately equal the the $365 million level, whichever occurs first.

In addition to the $365 million facility, we have established a separate $235 million facility which will be tied to additional credits to be provided by the IMF during 1977. Mexico's eligibility to obtain additional resources from the IMF will depend on IMF management judgments about the actual performance of Mexico's stabilization program over the medium term. Once official IMF approval is given, the $235 million will enable Mexico to draw money from the United States in advance of its actual receipts from the IMF.

Under both agreements we have included provisions which protect the security of U.S. funds. Under each agreement, when the IMF funds are disbursed under the corresponding IMF credit program, any drawings from the United States facility will be repaid within ten days. In addition, as Mexico draws from the IMF facilities, the amount available under our respective facility agreements will be reduced accordingly.

Our long-standing, but unutilized, stabilization agreement with the Mexicans remains in effect, although we have shortened up the terms on which they can borrow. That agreement allows the Mexicans to draw a total of $300 million, $150 million of which can be used directly by the Mexican government and another $150 million which must be deposited in the United States. In addition, the

Mexicans have a swap arrangement of $360 million with the Federal Reserve System, the full amount of which was drawn in July of this year. At the option of Mexico, they may repay up to $180 million of this swap in advance, in which case the Federal Reserve will participate up to that amount in the $365 million facility announced today. If the Federal Reserve does not participate in this new arrangement, the full amount of any Mexican drawing will be provided by the Exchange Stabilization Fund.

The Mexican government has embarked on a difficult undertaking. Over the next two years they need to implement significant internal economic adjustments. The necessary adjustments will not be easy, and there will be individuals and sectors of the Mexican economy who will be hurt in the process. Thus, the government will be under severe internal political pressures. By providing the Mexican government with these borrowing facilities to enable them to deal with disorderly exchange market conditions, we hopefully have reduced a potential source of external instability.

William E. Simon

Comments on the Mexican Program in the Light of Recent Developments

The Mexican program negotiated with the IMF staff[1/] is a very comprehensive one covering all facets of economic and financial policy. It will require a considerable amount of austerity for the three-year period over which it will be phased. This period begins January 1, 1977, and there are no policy understandings between Mexico and the IMF for the remainder of 1976. This hiatus for the next three months reflects the fact that the present Mexican administration will be leaving office on December 1 when President-elect Lopez Portillo is scheduled to be inaugurated. Apparently, outgoing President Echeverria was willing to take the blame for the devaluation, but not for the austerity measures which the situation requires. The result may well be an erosion of the advantages expected from the September 1 devaluation before the austerity program begins to take effect. Recent developments in Mexico described below would seem to be in line with this assessment. If this trend continues, the peso, which is currently held within narrow margins by the Bank of Mexico, may well have to be allowed to float to a lower value in coming months.

1/ A summary of the Mexican program will be found in a separate paper also being circulated.

Recent Developments

The Mexican stabilization effort has gotten off to a shaky start. On the basis of rumors (officially denied) that (a) bank accounts would soon be frozen and (b) exchange controls were about to be imposed, a run on banks developed around mid-September, and the capital inflow of early September was reversed. While the panic has abated, withdrawals from banks continue. Our Embassy in Mexico and the banks themselves are receiving an enlarged volume of inquiries about investment opportunities in the United States. The demand for U.S. currency has also increased.

Late last month, the Mexican government announced that the wage increase promised by President Echeverria on September 1 would range from 16 to 23 per cent. Organized labor, which had threatened a general strike unless the raise amounted to 65 per cent, agreed to this outcome when the authorities made it clear that prices of many consumer goods would not be allowed to rise by more than 10 per cent and that a freeze would be placed on others. These price measures were put into effect on September 27.

However, this wage increase is in addition to the wage bargains currently being negotiated by individual employers and unions. These range up to 10 or 15 per cent, so that the total wage increase this year will turn out to be close to 35 per cent for most workers.

On September 29, the Mexican government tightened controls on public expenditures and placed new restraints on investment spending and on hiring of workers by the public sector. But the public sector must now pay the higher wages just announced, and the peso burden of its external debt service payments has jumped with the devaluation. It will also have to cover the increased losses which public enterprises must incur as a result of the price freeze on essential goods and services sold by them in the face of higher costs. In this situation, the September 29 measures appear likely to provide only a partial offset to the continuing fiscal deterioration.

The full extent of the program and the magnitude of the required adjustments have not yet been spelled out for the general public. As a result, the public remains confused and skeptical of the Government's ability to prevent a further deterioration of the economy. The Government's credibility has been damaged by the fact that the currency was devalued after repeated assurances that it would not be, and now its confident statements about the future are widely disbelieved.

More significant measures than the newly announced restraints on public spending will be needed before confidence begins to return. For this, most observers believe that we will have to await the inauguration of President-elect Lopez Portillo on December 1.

The Long-Run Prospects

The magnitude of the Mexican disequilibrium is such that a major shock would have to be administered to the economy if it were to

be corrected quickly. The decision to phase the adjustment over a three-year period will make the annual adjustments smaller and therefore easier to accomplish. But there is a danger that the will to practice austerity may gradually weaken before the objectives of the program have been fully achieved. If this should happen, there could well be some slippage in the country's economic and financial performance under the program.

Indeed, the magnitude of the adjustment required, particularly in the budgetary area, is so large that some slippage may be inevitable. But even if the precise targets of the program are not fully achieved, the result should still be beneficial--unless the slippage is so large that the country ends up in effect with no program at all.

Mexico's prospective drawings on the IMF under the Extended Fund Facility arrangement will be phased over the three years to which the program is to apply, and Mexico's eligibility to draw will be subject to suspension if specified targets under the program are not met. This will give the Mexican authorities an added incentive to persevere in their efforts. The Fund staff will closely monitor Mexico's performance under the program and will conduct frequent reviews to determine its continued eligibility. Should slippage occur and should eligibility be suspended, new targets must be negotiated with the Fund to restore the country's right to draw. This will provide flexibility in case of slippage and ensure that Mexico is not faced with an

all-or-nothing situation. In other words, if the improvement expected under the program does not fully materialize, the door will be open to promote a more moderate measure of progress--one which, hopefully, will be attainable.

This flexibility on the part of the IMF, though understandable carries the risk that the authorities, encouraged by knowledge that a more modest degree of progress may be forgiven by the Fund, will not exert their best efforts to carry out the original program, or will tend too easily to give in to domestic political pressures to relax their austerity policies. But this risk is probably the price that must be paid to avoid a complete break between the member country and the Fund in case of unavoidable slippage.

The Mexican program is very specific in most areas of economic and financial policy, but it does leave a few things unsaid. One of these has to do with interest rate policy. In this area, there is a need for a rise in interest rates to make them positive in real terms and thereby enhance the attractiveness of peso assets to domestic and foreign investors. No such commitment or target is explicitly mentioned in the Mexican memorandum to the Fund. However, the Mexican authorities have accepted a commitment to pursue interest rate, credit, and reserve requirement policies that will permit the currency issue to increase by no more than the amount of any increase in the country's net international reserves, and within that constraint they have made a vague commitment to pursue

an interest rate policy aimed at retaining the largest possible portion of domestic savings within the country and inducing compensatory capital movements. Some more specific interest rate action might be particularly helpful in cushioning the capital outflows that have resumed at a steady rate over the past three weeks. In fact, Mexican interest rates, which are administered by the Bank of Mexico and remain fixed for substantial periods of time, have not been increased since the devaluation. The last increase occurred only about three weeks before September 1.

The most crucial task of the program must be to permit a shift of resources into the external sector. The program requires that strong steps be taken in this direction, especially on the fiscal side. But even over a three-year period, the proposed reduction in the size of the public sector deficit is huge and must be thought of as quite ambitious. A large part of the public sector deficit may be found in the state enterprises, the social security system, the state and local governments and the Federal District. There may be great difficulties in bringing about the needed reduction in these sectors.

If the reduction which is envisaged were achieved, it would allow the tightening of monetary policy that would support the aggregate demand objectives of the program and encourage a net inflow of capital. However, the measures needed to achieve the 1977 target for the public sector deficit may have to be so severe as to produce a recessionary shock.

This will severely test the will of the authorities to persevere on this course and may bring about social unrest.

On the external side, the restoration of confidence so as to end capital flight is another problem area. This may require the adoption of political and social policies which partially reverse the course followed in recent years--a difficult move to carry out. It may also require steps to overcome the credibility gap that seems to have been created by the decision to devalue after repeated assurances that there would be no devaluation. Should the flight of capital continue, this would jeopardize the achievement of the targets for external official financing and for the rebuilding of international reserves.

The performance of real wages is likely to be the most critical element in determining the success or failure of the program. Holding down increases in real wages will help directly in reducing pressures on the balance of trade by restraining real consumption. It will also help improve the public sector finances since wages are such a large fraction of total public expenditures. But organized labor in Mexico is powerful and holding down wage increases will not be easy. Indeed, the shift of resources into the external sector could create significant difficulties with the incomes policy.

Prepared by Yves Maroni
Division of International Finance
October 8, 1976

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

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October 29, 1976

To: Chairman Burns

From: Ted Truman EMT

At Governor Wallich's request I prepared the attached notes on the meeting on the Mexican economic situation that was held at Treasury yesterday. I have also enclosed a copy of Mr. Maroni's notes on the Mexican economic situation that were circulated to the Board earlier in the month. Finally, you will find copies of the latest summary economic and financial data on Mexico that we have.

If you would like to discuss with me any aspect of these materials this afternoon, I will be available. I will also be available either at home or in my office over the weekend.

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E.M. Truman
October 29, 1976

NOTES ON MEETING ON THE MEXICAN ECONOMIC SITUATION
(October 28, 1976)

Participants: Governor Wallich, Under Secretary Yeo, Messrs. Robichek (IMF), Cross (Treasury), Widman (Treasury), and Truman

Note: These notes are not intended as a comprehensive treatment of the Mexican economic situation. They are based on a meeting that was held at the U.S. Treasury at which information on the major features on Mexican economic performance was exchanged. (The discussion covered wage policy, exchange-rate policy, fiscal policy external debt, and short-term prospects.) However, along with the notes prepared by Yves Maroni on October 8, (copy attached) these notes serve to bring the evaluation of Mexican economic situation up to date to the extent that available data permit. A set of the most recent Mexican economic and financial indicators is attached.

I. Wage Policy

Mr. Robichek led off the discussion by commenting that the Fund staff has passed through several phases in its understanding of Mexican wage policy following the initial floating of the peso on September 1. First, there was fear that wage increases would eat away all of the competitive advantage to be derived from the depreciation. Second, when the Government announced agreement on a package of wage increases ranging from 16 to 23 per cent, this was regarded as favorable. Third, it was learned to everyone's disappointment that these adjustments were to be on top of regular wage bargains. On Wednesday, the statement was made in the IMF Executive Board that the government would encourage the re-opening of wage bargains that appeared to be excessive; no matter how desirable such a policy might it, it hardly sounds realistic.

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Mr. Robichek explained his understanding of the situation. The roughly 16 million Mexican labor force consists of three, approximately equal groups: (1) workers who earn the minimum wage, (2) workers covered under normal collective bargaining arrangements, and (3) workers who are "self employed" who are concentrated at both ends of the income distribution.

In Robichek's opinion, the wage increase of 23 per cent granted to the first group were not excessive given that the last adjustment was on January 1, 1976 and assuming that a further substantial adjustment would not occur in January 1977.

In his opinion, the major problem involves the second group of roughly 5 million workers covered under collective bargaining agreements. The one million government workers in this group had not received a wage increase since August 1975; therefore, Mr. Robichek did not think that the 21-23 per cent increase that they had now received was too worrisome. The big question mark concerns the other four million workers covered by collective bargaining agreements, who will receive a 16-23 per cent increase automatically. Here, case-by-case negotiations are now under way and no one can tell how they will come out.

Mr. Robichek offered the following general observations. (1) His hope was now that the average wage in 1976 would be no more than 30-35 per cent above the average wage in 1975. (2) Over the first eight months of 1976 the increase in wages had been about 10 per cent. (3) Prior to the depreciation, changes in the cost of living were running at about a 15

per cent annual rate. (4) He had thought that the maximum tolerable 1976 wage adjustment given the depreciation was an overall increase of 20-25 per cent which he felt would have been consistent with an "equilibrium" exchange rate of 20 pesos per dollar -- a roughly 40 per cent depreciation from the previous parity of 12.5 pesos per dollar. (5) While he did not think that present wage situation was a disaster, he found it disturbing and still very uncertain.

Mr. Yeo echoed Mr. Robichek's sentiments; he had gone from elation to gloom and was now in the middle.

A question was raised about union reaction to the second depreciation of the peso. Mr. Widman reported that he had heard that the (or some) unions had indicated that they would not seek to reopen the overall wage bargain.

II. Exchange-Rate Policy

Mr. Robichek remarked that Mexico's exchange-rate policy since September 1 had been badly handled. First, they had managed the rate too heavily. Second, they had adjusted it after the initial depreciation in the wrong direction, i.e., forcing a small appreciation of the peso. Third, they had held the peg at 19.80 pesos too long. All of the official intervention that occurred was at pegged rates, which was contrary to the advice the Fund had given to Mexico. (The Fund paper on the Mexican drawings of their expanded first credit tranche and under the Extended Fund Facility states as an assumption that "the Mexican peso

will be allowed to float in the next few months with only limited net intervention by the Bank of Mexico, the latter's net international reserves should not change much over the remainder of this year.")

Mr. Robichek said that he was, therefore, relieved that the Mexican authorities had apparently now decided to allow the peso to float more freely. (The average quotation on Thursday was 25.90 pesos per dollar or a depreciation of over 50 per cent since August 31.) The question was what would be the market's reaction. It was a second and risker gamble.

Mr. Robichek commented that the figures the Federal Reserve and Treasury had been receiving on Mexican intervention were an inaccurate indication of the change in Mexican reserves. These figures cover only net sales to banks by the Bank of Mexico. On the one hand, they do not include purchases of dollars from government enterprises in connection with their financial and other operations. On the other hand, they do not include payments to finance withdrawals from dollar-denominated accounts with Mexican banks.

Mr. Cross offerred the estimate that the actual change in Mexican reserves since September 1 was on the order of minus $350 million, in contrast with the over $1 billion in reported "net intervention." Mr. Robichek reminded the group that no one had been able to obtain hard figures -- the Mexicans are very hard to pin down. It was agreed, however, that hard figures were necessary in order to assess the damage inflicted by Mexican intervention policy.

Mr. Robichek commented that the analysis of the intervention and reserve statistics was complicated by the fact that the Mexican situation was one of a large current account deficit, capital flight, and the need for large amortization payments all of which led to extensive external borrowing. (See Section IV below.) He also commented that withdrawals from dollar-denominated accounts were associated with persistent worries that these accounts would be blocked or taxed.

Mr. Yeo commented that Lopez Portillo wanted to hold the rate so that he could take adjustment action later. (It was unclear to me whether he was talking about exchange-rate adjustment or macro-economic adjustment or both.) He said that Fernandez Hurtado had been caught in a crossfire involving the present government, Lopez Portillo, and the unions. He, too late, persuaded the authorities to let the rate move; now he has not only lost a large amount of dollars but a psychological advantage vis-à-vis the market. His problem now was that he had to intervene to some extent to prove that he had not "run out of gas" or "exhausted his ammunition," but he could not afford to get trapped again (in the near future?) into pegging the rate. Mr. Yeo said he expects runs on the peso because observers realize that there is a high probability that at some point the Bank of Mexico will be forced to block the dollar liabilities of banks.

III. Fiscal Policy

As a prelude to the achievement of the objective under the Mexican drawing from the IMF Extended Fund Facility of reducing the

global public sector deficit from 9 per cent of GDP in 1975 and an estimated 8.2 per cent of GDP in 1976 to 6.0 per cent of GDP in 1977 and 2.5 per cent of GDP in 1979, the Mexican Government on September 29 announced the tightening of controls on public expenditures, new restraints on investment spending, and restrictions on hiring new workers by the public sector.

At the meeting, it was generally agreed that everyone had received glowing reports on what was happening on the fiscal policy front, but no one had any specifics. It was agreed that such specifics were urgently needed.

IV. External Debt

Governor Wallich asked what information we had about Mexican debts that were coming due.

Mr. Robichek replied that in his analysis he viewed the problem as having three components. The first component is borrowing necessary to cover the current account deficit estimated, by the IMF, at $4.3 billion for 1976 less long-term capital inflows estimated at $1.2 billion for 1976 -- a net figure of $3.1 billion. (Note part of the long-term capital inflow is in kind, directly offsetting the current account deficit.) The second component is the amount that is necessary to cover amortization payments on external public debt. For 1976, he estimated these needs at $1.7 billion, including the assumption that all debt with an original maturity of under one year must be rolled over or refinanced once during the year. Adding these two components together

one gets a combined total of $4.8 billion ($3.1 billion in net current account financing plus $1.7 in amortization) or an average $400 million a month, which was the figure he worked with.

Governor Wallich commented that Fernandez Hurtado had told him that they needed only $250 million per month. Mr. Robichek replied that this was an example of the problem of pinning the Mexican's down; what assumptions was Fernandez Hurtado making? He cited the example of Mexican statements that short-term credit lines of about $3.2 billion in mid-1976 were "renewable lines of credit." But this was certainly not the way banks saw them. (In other words, if Fernandez Hurtado were including only the borrowing needed to cover the current account deficit net of long-term capital inflows, then the average monthly figure would be just over $250 million per month, using the IMF's estimate of the 1976 current account deficit, which is higher than the official Mexican estimate.)

The third component in Mr. Robichek's analysis of the Mexican debt situation is the potential gross outflows from the dollar liabilities of banks. As of mid-1976, such demand liabilities were about $1 billion, and they rose somewhat thereafter according to reports, but we do not have up-to-date figures on these liabilities. Total dollar liabilities of banks were about $3 billion in mid-1976. Mr. Robichek made no attempt to include these amounts in his calculations of Mexican needs for external financing. However, everyone agreed that they were a critical element of the story on which current information would be obtained.

Mr. Yeo said that the situation was not entirely one of measuring Mexico's needs. Mexico needed to establish the proper "adjustment atmosphere." If they were faced with policy paralysis, or had a poor financial environment, or did not take needed adjustment actions, then they were headed for trouble no matter how comfortable the formal debt situation was.

Governor Wallich asked Mr. Robichek what he knew about the $800 million syndicated loan for Mexico; what was its role in all of this? Mr. Robichek said that this was designed to cover part of the residual financing of the 1976 public sector deficit. No new expenditures would be financed from it either in 1976 or in 1977. In principle, it would cover the $400 million per month in external financing needed during the last two months of 1976.

Mr. Yeo said that we would be obtaining specific information on Mexican debts coming due. He also volunteered the observation that it was a very confused situation, citing the experience he had the day before when first he was told Mexico was receiving $150 million from Deutsche Bank and later was told that the deal had been cancelled.

V. Effects of the Mexican Program

It was asked what evidence, if any, we had regarding the effects to date of the Mexican depreciation of the peso and the associated program on the balance of payments. It was agreed that we had none but would try to obtain some.

Mr. Robichek merely repeated the figures in the IMF paper which indicate a gross external borrowing requirement of about $5 billion for 1977 composed of $2 billion for the current account net of long-term capital inflows, $1 billion to add to reserves, plus about $2 billion for "amortization." (In other words, the rate of Mexican external borrowing in 1977 will on average be higher than in 1976. But the purposes will be different.)

VI. Items not Mentioned

The following items were not discussed at the meeting.

A. There was no mention of the fact that Mexico has removed its export taxes imposed after the first depreciation of the peso and has reinstituted export subsidies. The second action would appear to violate the spirit, if not the letter, of the Mexican commitment to the IMF on commercial policy.

B. There was no discussion of monetary policy.

Attachment

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Y. Maroni
November 4, 1976

Summary of Recent Information on the Mexican Economic Situation

We have no statistical information on the Mexican economy for the period after the abandonment of the 12.50 peso-per-dollar exchange rate on September 1, except for the price indices for September. In September, the national consumer price index was 3.4 percent higher than in August, and 14.7 percent higher than a year earlier. The wholesale price index for Mexico City was 5.9 percent higher than in August, and 12.2 percent higher than a year earlier.

The measures taken immediately after the introduction of floating on September 1 appear to have had mixed consequences. The 23 percent wage increase came on top of increases already granted during the year through collective bargaining, resulting in an increase in wages for the year averaging around 30-35 percent. The introduction of export taxes and the abolition of the tax rebates for exporters have further raised costs for exporting firms. For those relying on imported components, the increased peso cost of imports represents an additional burden, only partly alleviated by the reduction of import duties. Under these circumstances, several American companies operating in Mexico have told the U.S. Embassy that their export competitiveness has been impaired by the devaluation and accompanying measures.

RESTRICTED

It would appear that this condition became sufficiently widespread to prompt the authorities to reduce the new export taxes effective on October 26 and to reintroduce selectively the system of tax rebates for some exporters. But the second devaluation, on October 28, dealt a new blow to firms with obligations denominated in foreign currencies. A few American firms have told the American Embassy that they were contemplating liquidating their inventories and reducing their operations to a minimum.

The Mexican stabilization program agreed to in conjunction with the IMF Extended Fund Facility arrangement is not due to become operative until January 1. No commitments were made by the Mexican authorities regarding the remaining months of 1976. However, there are some indications that revisions in certain program targets may have to be negotiated even before the program starts, as a result of the deterioration which has occurred since the program was formulated in August-September. This appears to be especially true of the public sector target. The Government employees' wage increase (totaling at least 23 percent) and other cost increases, together with lower income tax collections from firms hard hit by the devaluation and the accompanying measures, appear to have widened the public sector deficit for 1976, making it that much harder to reach the 1977 target for the public sector deficit to 6 percent of GDP.

The authorities did announce steps to hold down public spending at the end of September, but their impact for the remainder

of 1976 is expected to be limited. Their principal significance arises from the fact that they represent a signal for the future.

It is encouraging that the second devaluation, on October 28, was not followed by demands for new wage increases. The fact that business has been adversely affected by the various steps taken since September 1 and that, as a result, something of an economic slowdown has apparently been triggered, may have influenced the labor leaders to take a more restrained attitude than after the first devaluation on September 1. However, another wage increase may occur on January 1 when the minimum wage is due to be reviewed.

The dominant characteristic of the current Mexican situation is that the general public has lost confidence in the Government's pronouncements and in its ability to handle the economy's problems. The Echeverria administration has less than a month to go and is becoming increasingly powerless to act. Meanwhile, the Lopez Portillo administration is not yet in office and the President-elect is not in a position to make public statements about his intentions. As a result, there is not only a power vacuum but also a lack of information concerning what the new administration will do. The Mexican program agreed to in conjunction with the Extended Fund Facility arrangement is not widely known, and ignorance fuels lack of confidence.

On the external side, there is a wide divergence of opinion as to the size of the current account deficit in the current year. The Mexican authorities continue to speak of a deficit not exceeding

$3 billion, while the IMF staff is projecting it at $4.3 billion. Actually, the two estimates are not comparable because of differences in accounting for certain transactions. But the gap between the two is considerably larger than in 1975, when the official Mexican compilation put the deficit at $3.6 billion while the IMF staff's was $4.1 billion. I have discussed the IMF estimate for 1976 with the IMF staff and found that they assumed that the devaluation would have a negligible effect on the balance of payments in the last four months of 1976. Their estimate of Mexican imports is about 10 percent higher than the 1975 level, but this seems high considering that, in the first seven months of the year, imports were about at the same level as in the same period of 1975. My own guess is that the 1976 deficit on current account (on the IMF basis) will be around $3.7 billion.

MEXICO: ECONOMIC INDICATORS C.9a
(NOT SEASONALLY ADJUSTED)

November 4, 1976

	1973	1974	1975	1975 Q2	1975 Q3	1975 Q4	1976 Q1	1976 Q2	1976 Q3	1976 MAR	1976 APR	1976 MAY	1976 JUNE	1976 JULY	1976 AUG	1976 SEPT
1960 PRICES REAL GDP(BIL.P)	354.1	375.0	390.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
IP (1973=100)	100.0	107.3	112.3	115.7	112.8	113.8	116.3	116.6	N.A.	123.3	113.6	118.8	117.4	N.A.	N.A.	N.A.
UNEMPLOYMENT	NOT AVAILABLE															
WPI (73=100)	100.0	122.5	135.4	133.6	138.0	141.2	149.1	153.9	162.4	151.2	151.9	154.2	155.6	159.5	159.0	168.8
CPI (73=100)	100.0	123.7	142.3	140.3	144.8	147.8	154.2	158.2	163.2	156.2	157.2	158.3	159.0	160.3	161.9	167.4
M1* (Seas. adj.)	24.1	8.3	22.3	6.7	2.9	5.8	3.8	4.8	N.A.	1.0	1.7	3.1	-0.4	3.1	N.A.	N.A.
EXPORTS ($BIL)	2.1	2.8	2.9	0.8	0.7	0.8	0.8	0.9	N.A.	0.3	0.3	0.3	0.3	0.2	N.A.	N
IMPORTS ($BIL)	3.8	6.1	6.6	1.7	1.6	1.9	1.4	1.7	N.A.	0.5	0.5	0.5	0.6	0.6	N.A.	N.A.
TRADE BAL ($BIL)	-1.8	-3.2	-3.7	-0.9	-0.9	-1.1	-0.7	-0.8	N.A.	-0.2	-0.2	-0.2	-0.3	-0.3	N.A.	N.A.
BALANCE OF GOODS & SERVICES($BIL)	-1.3	-2.6	-3.6	-0.9	-0.9	-1.1	-0.6	-0.9	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

* Percentage change from previous period.

C.9b

FINANCIAL INDICATORS -- MEXICO

(dollar amounts in millions)

	1975	1976							Week ended					
	YEAR	QI	QII	QIII	AUG	SEPT	OCT	NOV 1-3	SEPT 29	OCT 6	OCT 13	OCT 20	OCT 27	NOV 3
EXCHANGE RATE (CENTS PER PESO, END OF PERIOD)	8.00	8.00	8.00	8.00	8.00	5.03	3.90	3.92	5.03	5.03	5.04	5.03	3.77	3.92
SDR VALUE OF PESO	.06842	.06924	.06985	.04364	.06957	.04364	.03398	.03398	.04364	.04351	.04367	.04363	.03398	.03398
SHORT TERM INTEREST RATE (E.O.P.)	12.94	13.11	13.11	13.11	14.00	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14.36	14
LONG TERM INTEREST RATE (E.O.P.)	No appropriate long-term rate available													
RESERVES (IFS, E.O.P.)	1,533	1,501		897P	1,159									
AVAILABLE IMF CREDIT TRANCHES (E.O.P.)	433	620	615	621P	618	621P	621P*	621P						
INTERVENTION, PURCHASES (+) OR SALES (-)														
OF DOLLARS									-131	-189	-156	-241	-288	-122
(OF OTHER CURRENCIES; EQUIVALENT)														
SWAP ACTIVITY														
DRAWINGS (+), REPAYMENTS (-)	360 -360	--	360	--	--	--	-- -360	--	--	--	--	--	--	--
SWAP LINE -- 360														

* With additional credits negotiated from the Compensatory and Extended Fund facilities, Mexico overall access to IMF credit could rise over time to $960 million.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 5, 1976

To Chairman Burns

Subject: Mexican Swap

From Henry C. Wallich

I have promised Fernandez-Hurtado to call him today, Friday, November 5. It is my impression that he would rather be told "no" than to be kept waiting, because he must make immediate decisions about his rate.

I spoke to Yeo, who is holding $150 million available without requiring prior drawing upon the Federal Reserve, and I have informed Fernandez-Hurtado of that fact. It is surprising that he should have been under the misapprehension that prior drawing on the Federal Reserve was required since Yeo is in daily contact with him.

The information we have from Mexico does not indicate that they have unmanageable maturities before them, unless there are difficulties with rollovers. Thus there seems to be no clear and immediate threat to our banking system. There obviously is in the background a latent and very serious threat. In view of that contingency, I suggest the following approach:

(1) Allow the Mexicans to draw on the Federal Reserve pari passu with the Treasury up to $150 million.

(2) The total to be made available should be paid out in small amounts, say, $25 or $50 million at a time, providing an occasion to talk to the Mexicans each time to restrain their intervention.

(3) Because there is no take-out, the Mexicans should maintain the dollar value of the pesos they give us by increasing the amount of pesos if the peso declines. This provision has a precedent in the maintenance-of-value clause of the IMF. It could be implemented in an approximate fashion, by rewriting the swap every week or every month at the then prevailing exchange rate if that rate had declined. We would then have full collateral for our loan. While it is unlikely that we would ever try to collect our loan by selling the pesos in the market, and while the Bank of Mexico could prevent us from doing so by blocking the peso account, nevertheless our position in negotiations with the Bank of Mexico, and perhaps also in the eyes of possible critics of the operation, would clearly be stronger.

Scott Pardee has major misgivings about this approach. He argues that it would set a precedent for all other swaps and could also be applied to U.S. drawings under these other swaps. I see no necessary precedent or parallel, particularly since existing swaps contain some asymmetries, for instance, with regard to loss sharing. Also, we do not ordinarily offer a specific take-out in our own drawings.

(4) We might examine with Fernandez-Hurtado whether a swap of the sort which the Treasury holds available for a second $150 million would help Fernandez-Hurtado. This second $150 million that the Treasury could supply would be kept by the Treasury as collateral, so that the Mexicans do not effectively receive any funds and the Treasury runs no risk. My impression is that the Mexicans can use this deposit for

inclusion in their required minimum reserves, allowing them to draw down their own reserve funds by an equal amount. Fernandez-Hurtado told me that he was concerned about violating his required reserve limit. Conceivably an arrangement of this sort with the Federal Reserve, also to be used only pari passu with the Treasury, could help him.

Fernandez-Hurtado told me that he was trying to manage a trend in the rate with minimal use of resources. If he did not succeed, he would have to go out of the market in a few days. Yeo said that yesterday, Thursday, Fernandez-Hurtado made "a big push," presumably to set the rate on an upward trend, and failed. Yeo would be in accord with a policy of doling out funds piecemeal and, in general, going pari passu with the Federal Reserve.

PRM-41: Annexes

1. Energy
2. Trade
3. Migration
4. Border
5. Population
6. Mexican Economy
7. Narcotics
8. Security
9. Human Rights
10. Nuclear
11. Technology
12. Investment
13. Fisheries
14. Mexican Statements
    - -- Lopez Portillo Speech of October 13
    - -- "Mexico and the World" by Jorge Castaneda

PRM 41 - Human Rights

While it generally supports positive multilateral human rights initiatives, Mexico's domestic human rights record leaves room for significant improvement. At the same time, Mexicans have criticized the United States for human rights violations against Mexican-Americans and Mexican citizens in the United States. In the human rights area we want to continue our multilateral cooperation, manage a quiet and reasonable dialogue, and encourage human rights improvement on both sides without undue cost to our other interests.

Background on Human Rights in Mexico

Mexico's record on human rights is reflected in a complex set of policies and actions. In multilateral areas, Mexico generally supports positions to improve human rights in hemispheric nations, and follows this up by granting political asylum to the persecuted of those nations. The Mexican Government has not yet adhered to the American Convention on Human Rights. Their officials have informed us that they will ultimately sign it, though they have some reservations about its jurisdictional aspects. Although rather cautious about visits by the IAHRC, by the Red Cross and by private human rights groups, Mexico informed the 1977 OAS General Assembly that the Inter-American Human Rights Commission would be welcome to visit. Amnesty International was allowed to visit Mexico twice and the Mexicans have permitted the formation of domestic human rights groups.

On the domestic side, Mexico's record is more complex and contradictory, with sizable credibility gaps between Mexico's professed policy and actual record. The Mexican Constitution and law support such basic human rights as freedom from torture or arbitrary arrest, the right to a fair trial, and freedom of speech and association. Mexicans take great pride in the social content of their Constitution which guarantees the right to work, education, food, labor union membership, collective bargaining and the like. However, confronted by the tensions inherent in rapid development, Mexico, like most countries, falls short in fulfilling its human rights goals.

The obstacles to Mexico's implementation of its human rights protections have their roots in poverty and in the political system which grew out of the 1917 Mexico Revolution. The system is dominated by one party, the Institutional Revolutionary Party (PRI). While there has been scope for considerable debate and opposition within the PRI, the increasing rigidity of the political system and the concomitant rigidity of the economic system has not left sufficient room for dissidence in the Mexican political system, thereby producing extremists and even terrorists.

Today Mexico is faced with a terrorist movement (on a smaller scale than in the past and in many other Latin American countries) which calls for radical revolution and has engaged in kidnappings, bank robberies and murders. To meet this threat, the government has adopted a hard line to deal with suspected members of terrorists organizations. The principal anti-terrorist instrument is an ad hoc elite group reportedly consisting of some police and military elements and known as the White Brigade. In its drive to eradicate terrorists the White Brigade and other security force elements have sometimes ignored the human rights of the suspects and Mexican judicial procedures. Human rights groups and opposition political parties have charged that the security forces have tortured and executed suspects and are responsible for the disappearances of as many as 200-300 persons over the last decade.

While the emphasis of repression has been on those suspected of terrorism, occasional extra-legal actions by the security forces have also affected agrarian, labor, and student strike leaders.

The Government of President Lopez Portillo is sensitive to these abuses and in an effort to heal the breaches in Mexican society caused by dissident groups dating back to 1968, sent the Mexican Congress a bill to provide amnesty for political prisoners early in September 1978. The law was passed and promulgated in late September and has already benefitted about 200 persons although questions about the fate of some people who have disappeared persist. Because of certain restrictions contained in the law, its full impact on those who have committed violent crimes has not yet been determined.

Realizing the importance of renewing and opening up the Mexican political system, President Lopez Portillo has instituted a series of political reforms to increase the number of opposition political parties and their representatives in Congress. These reforms will be important in the process of advancing political freedoms in Mexico by giving dissidents a more active role in the mainstream of Mexican politics. It is not expected that the reform for the foreseeable future will weaken the dominant role of the PRI.

U.S. Policy Approaches

General Improvement of the US-Mexican Dialogue

Our approach to promoting further human rights improvement in Mexico is through encouragement of and cooperation with human rights groups, ranging from the IAHRC to Amnesty International, to Mexican human rights groups. Given the Mexican Government's support for human rights initiatives in international forums and the special sensitivity of Mexicans about being told what to do by the United States, it would be ill-advised and counter-productive for us to take Mexico to task publicly for its domestic violations of human rights. We will continue to use quiet diplomacy on human rights. In the continuing dialogue with the Mexican Government on human rights developments we want to assure the Mexicans that we believe human rights violations in both the United States and Mexico are legitimate issues of discussion between our two Governments.

It is apparent that Mexico's implementation of its economic and social human rights will depend on Mexico's economic development. The distribution of income is now markedly uneven, with a large segment of the population lacking permanent employment or basic social services. Our policy is to support

Mexico's attempts to redress these human rights problems within the context of improving Mexican economic and political development.

Mexican Adherence to the American Convention on Human Rights

We continue to encourage the Mexican Government to adhere to the Convention, notwithstanding the legal difficulties which can, as in the case of United States adherence, be resolved through reservations on certain articles. Now that the Convention is in effect and a Court is close to establishment, Mexico's adherence would support its professed preference to resolve international problems through multilateral organizations.

Improvement in Human Rights of American Prisoners

Despite the decrease in the number of American prisoners held in Mexican jails as a result of the prisoner transfer treaty of 1977, new arrests occur monthly and sometimes involve violations of our citizens' human rights by security forces. We continue to press for improved treatment of arrested Americans, consistent with Mexico's international and bilateral agreements.

Mexican Complaints About U.S. Human Rights Violations

Within the framework of discussions on treatment of American prisoners we are prepared to discuss Mexican complaints about mistreatment of Hispanics, including illegal Mexican workers in the United States. The Mexicans have complained about a number of cases in which Mexican citizens and Mexican-Americans have been mistreated by federal, state and local authorities in the United States and allegations that they have not in all cases received full protection of American law or judicial procedures.

Mexican Support for U.S. Multilateral Efforts to Promote Human Rights

We appreciated Mexico's privately expressed offer to support our human rights initiatives in the 1978-79 UN General Assembly. To date there has been little opportunity for them to do so, but as Mexico seeks a wider role in international organizations we hope to be able to count on Mexico as a voice for balance in UN treatment of human rights. At the same time it should be noted that Foreign Secretary Roel, both in the 1978 OAS General Assembly and the 1978 UNGA, has staked out a position arguing that the protection of human rights throughout the hemisphere and the world should include protection of the human rights of migrant workers.

November 21, 1978

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THE WHITE HOUSE

WASHINGTON

December 16, 1987

NATIONAL SECURITY DECISION
DIRECTIVE NUMBER 291

U.S. POLICY TOWARD MEXICO (U)

A politically stable, economically healthy and cooperative Mexico is of crucial importance to U.S. national security. Therefore, it is U.S. policy to foster the political stability and economic well-being of Mexico; to strengthen our cooperation on issues of mutual interest and concern with a view to overcoming our bilateral and multilateral differences; and to achieve better understanding and acceptance of U.S. foreign policy, especially with respect to Central America and a reduction of narcotics production, transshipment, and distribution. The complexity and vital importance of our relationship with Mexico, particularly the harm to U.S. interests which would be an inevitable consequence of Mexican instability, require that greater attention be given to U.S. policies, programs and actions regarding Mexico. To support this U.S. policy, the President has made the following decisions based on the interagency study dated April 14, 1987, prepared in response to National Security Study Directive 5-87: (S)

1. The Interagency Group on Mexico, chaired by the Assistant Secretary of State for Inter-American Affairs, shall meet regularly to assure the fullest coordination of coherent and consistent policies, programs and actions regarding Mexico. The executive secretary of the IG, designated by the chairman, will be the principal point of contact for all departments and agencies in assuring appropriate interagency coordination. Reports required by this NSDD shall be submitted to the Executive Secretary of the IG with a copy sent to the NSC. The functions of the Interagency Group shall include but not be limited to the following: (S)

-- coordination of public statements, meetings with Mexican officials, and other actions by senior U.S. officials so as to maintain a high-level dialogue in a climate which fosters cooperation, progress and mutual understanding; (S)

-- avoidance, to the extent possible, of the U.S. becoming a major issue in the 1988 Mexican elections or of otherwise strengthening elements in Mexico which are hostile to U.S. interests; (S)

-- preparation of plans for the 1988 meeting of the U.S. and Mexican Presidents; (S/W

-- review and coordination of the implementation of other U.S. policies, programs and actions, including those described below, in order to assure that such implementation best supports overall U.S. objectives; (S/W

-- coordination of the implementation of other recommendations set out in the interagency study. (S/W

2. [redacted] (a)(5)

3. The International Standing Committee of the National Drug Policy Board will review U.S. narcotics cooperation toward Mexico with a view to strengthening all aspects of cooperation. This assessment should analyze the level of personnel and financial resources and recommend changes in their allocation commensurate with the magnitude of the volume of narcotics entering the United States from Mexico. This assessment shall be submitted to the Interagency Group within 30 days of the effective date of this NSDD. (S/W

4. To strengthen U.S.-Mexican trade and investment ties, and support Mexico's economic recovery, the Economic Policy Council will examine prospects for establishing a special trade and investment relationship with Mexico. The EPC will also examine developments in trade and investment along the U.S.-Mexico border to determine their effect on the overall bilateral economic relationship. The EPC shall submit its report within 30 days. (S/W

5. The Secretary of the Treasury will devise a long-term strategy for helping Mexico overcome its external debt problems, including external financial support linked to progress on Mexican economic reforms, financing from multilateral development banks and private direct investment, to supplement lending to Mexico by private commercial banks. [redacted] (a)(5)

[redacted] Treasury will submit in writing a strategy for IG consideration not later than 30 days from NSDD effective date. (S) (b)(5)

6. The Secretary of State and the Attorney General shall assure that the Immigration and Naturalization Reform and Control Act of 1986 is implemented with minimal disruption of bilateral relations with Mexico. (S)

7. To achieve greater mutual understanding between our two societies, and greater acceptance of U.S. policies by the Mexican public and opinion leaders, the Director of USIA will report on the existing program of interaction already begun with Mexican leaders to explain U.S. policies and outline our plans to increase this effort within approved Agency resource levels. USIA progress report is due within 30 days from the effective date of this NSDD. (S)

8. The Secretary of Defense will devise a long-term strategy to strengthen relations with the Mexican military through exchanges, visits and assistance in its modernization efforts. The strategy shall be submitted within 30 days. (S)

The IG will report the status of the actions taken in response to the foregoing decisions, and make specific recommendations on how these subjects should best be treated at the 1988 meeting of Presidents Reagan and de la Madrid. (S)

Ronald Reagan

SECRET

SYSTEM II
90107

THE WHITE HOUSE

WASHINGTON

UNCLASSIFIED

February 11, 1988

NATIONAL SECURITY DECISION
DIRECTIVE NUMBER 300

U.S. POLICY TOWARD MEXICO (U)

NSDD-291 (December 16, 1987), concerning U.S. policy toward Mexico, is hereby amended by the substitution of the following in lieu of paragraphs 4 and 5 thereof:

4. To strengthen U.S.-Mexican trade and investment ties and support Mexico's economic recovery, the Economic Policy Council will examine prospects for building upon the U.S.-Mexico Framework Agreement toward a special trade and investment relationship with Mexico. This examination will include the impact of developments in trade and investment along the U.S.-Mexico border on the overall bilateral economic relationship. The Council will report to the President any significant recommendations for further action. The Executive Secretary of the Council will keep the IG apprised of developments on this issue. (S)

5. The Secretary of the Treasury will continue actively to implement the long-term strategy for helping Mexico overcome its external debt problems while achieving sustainable economic growth. This strategy includes external financial support linked to progress on Mexican economic reforms, with financing from multilateral development banks and private direct investment to supplement lending by private commercial banks. Refinements to the strategy will be made as needed over time and will be implemented in consultation with other appropriate USG agencies. [redacted] (b)(5)

Ronald Reagan

SECRET
Declassify: OADR

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by D. Van Tassel, National Security Council
(F 87-1058)

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